DOCUMENT RESUME

ED 447 058 SO 032 302

| | |
|---|---|
| AUTHOR | Schug, Mark C.; Caldwell, Jean; Wentworth, Donald R.; Kraig, Beth; Highsmith, Robert J. |
| TITLE | United States History: Eyes on the Economy. Volume One: Through the Civil War. |
| INSTITUTION | National Council on Economic Education, New York, NY. |
| ISBN | ISBN-1-56183-480-7 |
| PUB DATE | 1998-00-00 |
| NOTE | 170p.; For volume two, see SO 032 303. |
| AVAILABLE FROM | National Council on Economic Education, 1140 Avenue of the Americas, New York, NY 10036; Tel: 212-730-7007; Fax: 212-730-1793; E-mail: (econed@ncee.net); Web site: (http://www.ncee.net). |
| PUB TYPE | Guides - Non-Classroom (055) |
| EDRS PRICE | EDRS Price MF01 Plus Postage. PC Not Available from EDRS. |
| DESCRIPTORS | *Capitalism; Economic Change; *Economic Climate; *Economics; Economics Education; Entrepreneurship; *Free Enterprise System; Secondary Education; Social Studies; United States History |

ABSTRACT

This lesson guide is designed to help U.S. history teachers and students in grades 8-11 examine historic events through basic economic reasoning. It lends itself to instruction grounded in inquiry learning, direct instruction, and cooperative learning. It calls for students to be engaged in case studies, simulation exercises, and group work, as well as lectures, class discussion, reading, and writing. This volume (1 of 2) includes eight units, each of which presents a unit overview, two to seven lessons (26 altogether), and sample test items. Each lesson includes an introduction that summarizes the historical facts and economic principles to be used in the lesson, a concept list, instructional objectives, an estimate of the time required for instruction, and a list of instructional materials, including visuals for transparencies, and student activities. Each lesson contains detailed teaching procedures, which typically begin with a statement of purpose and include discussion questions, activities, anticipated responses, and answers to questions posed in the activities. Each lesson culminates with a closure activity that reviews learning, provides a lesson summary, or invites additional applications. The program is designed for supplemental use with a secondary U.S. history textbook and is intended to integrate the study of history and economics. The program is not intended for use as a self-contained history course; it focuses only on the economic dimensions of U.S. history. (Author/BB)

Reproductions supplied by EDRS are the best that can be made
from the original document.

ED 447 058

# United States History: Eyes on the Economy.
## Volume One: Through the Civil War.

National Council on Economic Education, New York, NY.

PERMISSION TO REPRODUCE AND DISSEMINATE THIS MATERIAL IN MICROFICHE AND IN ELECTRONIC MEDIA FOR ERIC COLLECTION SUBSCRIBERS ONLY HAS BEEN GRANTED BY

B. Rauch

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

2A

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

☑ This document has been reproduced as received from the person or organization originating it.

☐ Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

SO 032 302

BEST COPY AVAILABLE

VOLUME ONE: Through the Civil War

# UNITED STATES HISTORY
## EYES ON THE ECONOMY

BEST COPY AVAILABLE

National Council
on Economic Education
The EconomicsAmerica and EconomicsInternational Programs

## VOLUME ONE: Through the Civil War

# UNITED STATES HISTORY

# EYES ON THE ECONOMY

**Mark C. Schug**

**Jean Caldwell**

**Donald R. Wentworth**

**Beth Kraig**

**Robert J. Highsmith**

National Council
on Economic Education

The EconomicsAmerica and EconomicsInternational Programs

# AUTHORS

Mark C. Schug
Professor of Curriculum and Instruction
University of Wisconsin-Milwaukee

Jean Caldwell
Professor of Economics
University of Central Oklahoma

Donald R. Wentworth
Professor of Economics
Pacific Lutheran University

Beth Kraig
Assistant Professor of History
Pacific Lutheran University

Robert J. Highsmith
Director of Research
National Action Council for Minorities in Engineering

Third Printing, 1998. Second Printing, 1995. Copyright © 1993 by the National Council on Economic Education, 1140 Avenue of the Americas, New York, NY 10036. All rights reserved. The worksheets and the tests may be duplicated for classroom use, the number not to exceed the number of students in each class. Notice of copyright must appear on all copies. With the exception of the worksheets and tests, no part of this book may be reproduced in any form or by any means without permission in writing from the publisher. Printed in the United States of America.
ISBN 1-56183-480-7
5 4 3

# CONTENTS

**FOREWORD** v

**PREFACE** vii

**INTRODUCTION** ix

**UNIT 1 SOLVING ECONOMIC MYSTERIES IN UNITED STATES HISTORY**
- Overview 1
- Lesson 1 Solving Economic Mysteries in U.S. History: A User's Guide 2
- Lesson 2 The United States' Past and the Global Economy 10
- Lesson 3 The Hula Hoop Market of 1958 17
- Sample Test Items 23

**UNIT 2 THE FIRST AMERICANS**
- Overview 25
- Lesson 1 The New World Was an Old World 26
- Lesson 2 Did Native Americans Act Economically? 33
- Sample Test Items 37

**UNIT 3 EXPLORATION AND SETTLEMENT**
- Overview 39
- Lesson 1 Why Do Economies Grow? 40
- Lesson 2 Be a Planet Planner 45
- Sample Test Items 50

**UNIT 4 THE ROAD TO REVOLUTION**
- Overview 51
- Lesson 1 Understanding the Colonial Economy 52
- Lesson 2 The Costs and Benefits of Independence 60
- Lesson 3 Entrepreneurship Case Study: Eliza Lucas Pinckney 64
- Sample Test Items 66

# CONTENTS

## UNIT 5 THE CONSTITUTIONAL PERIOD

Overview 67
Lesson 1 Problems Under the Articles of Confederation 68
Lesson 2 The Constitution: Ground Rules for the Economy 74
Lesson 3 Entrepreneurship Case Study: George Mason 79
Lesson 4 Entrepreneurship Case Study: Adam Smith 81
Sample Test Items 86

## UNIT 6 A NEW NATION

Overview 87
Lesson 1 The Tale of the Corset and the Necktie 88
Lesson 2 Productivity Raises Output 94
Lesson 3 Lowell Workers and Producers Respond to Incentives 102
Lesson 4 Cost Cutting is Fashionable 109
Lesson 5 Improving Transportation 115
Lesson 6 What is Investment? 120
Lesson 7 Entrepreneurship Case Study: Samuel Slater 124
Sample Test Items 126

## UNIT 7 BOOM AND BUST IN THE EARLY 1800S

Overview 129
Lesson 1 Saving and Investing in Razorback 130
Lesson 2 What Role Does Money Play? 134
Lesson 3 Boom and Bust in the 1830s 139
Sample Test Items 144

## UNIT 8 A NATION DIVIDED

Overview 147
Lesson 1 Why Did the South Secede? 148
Lesson 2 The Economic Effects of the Civil War 154
Sample Test Items 158

# FOREWORD

*United States History: Eyes on the Economy* is the latest in the continuing series of highly effective, classroom-tested publications produced by the National Council on Economic Education[1] for high school teachers and students.

The program helps U.S. history teachers and students examine events in our history through basic economic reasoning. That reasoning—six powerful ideas that explain the economic behavior of people—is used throughout the lessons to illuminate understanding of our past. Fascinating new insights emerge as students apply economic analysis to the events covered in traditional history courses. In the very first unit, for example, students discover why recent sightings of Elvis Presley around the country have occurred. In ensuing units students use economic reasoning to understand the first Americans, exploration and settlement, the road to revolution, the constitutional period, the founding of a new nation, the booms and busts of the early and late 1800s, the trauma of the Civil War, the homesteading period, the industrial revolution, the many traumas of segregation, the Great Depression and the New Deal, recent events in our nation's economic history, and more.

Mysteries abound in U.S. history. Students, acting like detectives, solve historical mysteries by searching for clues and piecing them together in ways that add important new insights to familiar subjects. *United States History: Eyes on the Economy* is filled with mysteries that are clarified by economic analysis. Using the program to solve mysteries of the past prepares students in grades 8-11 to solve present-day mysteries surrounding them.

I thank especially the principal writer, Mark Schug, the other writers, reviewers, and field testers. I also thank former National Council staff members, Robert Highsmith and Joan Sullivan Baranski, for their hard work and creativity in producing this program. Special thanks go to the Calvin K. Kazanjian Economics Foundation, Inc., its board, and Michael A. MacDowell, Director, for their encouragement in undertaking the project and for their generous financial support.

Robert F. Duvall, President & CEO
National Council on Economic Education

---

[1] The National Council on Economic Education is the former Joint Council on Economic Education.

# PREFACE

The authors of this project regard the past as a dimly lit room where people have lived and events have occurred. We may not have seen clearly each action and individual. Intellectual lights must be used to illuminate this room, so we can better observe and evaluate its contents. These lights come from the fields of economics, political science, history, anthropology, sociology, ethics, and others. As our spotlight, we chose a deductive reasoning model from the field of economics. This model provides insights into individual and group behavior by focusing on *Choice*, *Incentives*, *Disincentives*, and *Anticipated Consequences*.

When students envision the past, they often see it not as a room in which interesting and mysterious events have occurred, but as a lengthy sequence of names and dates. That events occurred, one after the other, students recognize. *Why* events occurred (and why others did not) is shadowy, harder to see.

To help students understand *why*, teachers introduce the intellectual framework of cause and effect. This adds light to the room, but also adds complexity, since the precise causes that shaped specific effects are almost always debatable. What caused the Civil War? Why did the Jim Crow system emerge at the turn of the century? If the answers to such questions are always subject to debate, how can teachers illuminate their students' investigation of the past and help them develop and support thoughtful arguments to explain what they find?

Using the deductive reasoning model that characterizes this program, teachers can provide three important spotlights for students: a) they can help them recognize that an amazingly diverse range of causes is usually at work before every effect; b) they can help them think critically and logically about the *weight* that each cause carried; and c) they can convince them that most conclusions are tentative, subject to change as new evidence and new evaluations emerge. As the light in the room intensifies, or the positions of spotlights shift, students of the past will ask more questions and may revise their conclusions.

The deductive reasoning model that ***Eyes on the Economy*** employs embodies the principles we call the *Handy Dandy Guide (HDG)*. While all six principles in the *HDG* serve the teacher well, three are especially appropriate to the study of the past.

The first is choice (people choose). Teachers use this principle to help students recognize that options are available to people at any time. Not all people have the same options, not all have positive options, but people do choose. Today, we seldom attribute historical events to the intervention of fate or gods as did the ancients.

People try to choose the best option they think is available. Incentives and disincentives influence this choice. Incentives are positive consequences that people anticipate, while disincentives are anticipated consequences that people try to avoid. However, since the consequences lie in the future, they can only be anticipated, not known. Anticipated consequences may not occur, and unanticipated ones may. This makes the world risky and outcomes can be disappointing.

By using the *HDG* and economic reasoning, students learn that history is extraordinarily complex but understandable, that human experience is richly diverse but can be evaluated and explained. Students will be driven not to accept monocausal or single explanations for debated historical developments, but encouraged to develop multicausal, evidence-centered explanations. They will also learn to respect the careful and thorough arguments that others construct, and to debate with others the merits and logic of their interpretations and their evidence. Using the light of economic reasoning, students will illuminate a larger portion of the past and expand their ability to describe and explain the new things that they see.

# U.S. HISTORY: EYES ON THE ECONOMY

## HISTORY IS INCOMPLETE WITHOUT ECONOMICS

United States history holds a central place in the school curriculum. More than any other discipline or field of study, it is what American schools rely upon to teach young people about their national identity and all that that means. In this curricular context, economics always has been understood, together with political science and geography, as a fundamental aspect of U.S. history. School district curriculum guides for history across the country include goals related to study of the U.S. economy and its relationship to the world economy. Unfortunately, the goal of incorporating economics in history courses has eluded many schools. In fact, research suggests that students gain little new economic understanding from existing U.S. history courses. Moreover, U.S. history textbooks are revealed by this research to lack accurate information about the historical development of the economy.

## APPLYING ECONOMIC REASONING TO HISTORY

The primary goal of this program is the improvement of students' skill in using economic reasoning to understand the past, to understand the present, and to anticipate the future. It introduces a specific set of economic principles to help students understand better a wide range of historical questions. The economist Paul Heyne observes that economic principles can help students to:

> *. . . make sense out of buzzing confusion. They clarify, systematize, and correct the daily assertions of newspapers, political figures, ax grinders, and bar room pontiffs.*

The program highlights mysteries in United States history to help students improve their economic reasoning skills. Each mystery presents a historical paradox. Here are some examples:

1. American colonists prospered under English rule, yet they chose to fight a war to gain independence. Why?

2. Prior to the Civil War, the North had more railroads, more industry, and a larger population than the South. Yet the South chose to fight the North. Why?

3. Despite the fact that the Homestead Act gave free land to settlers, more people paid for land to settle after its passage than accepted free land. Is free land a good deal?

4. In the late 19th century, monopolies were established in many key U.S. industries. Governments passed legislation to regulate monopolies but succeeded in breaking up only a few. What happened to all the rest?

5. In 1896, Homer Plessy failed in his attempt to strike down segregation in the South. In 1955, Rosa Parks succeeded. Why?

6. While President Franklin Roosevelt's New Deal is widely credited with ending the Great Depression, some New Deal plans actually impeded economic recovery. Why?

7. After nearly every war in U.S. history, the U.S. economy slackened when the troops returned home. Yet, the U.S. economy did not slacken after World War II. Why?

8. How could Michael Jackson and a Jeep represent U.S. survival in the global economy?

Students are invited to unravel mysteries such as these by applying economic principles and by examining evidence gathered by economic historians.

## SOLVING MYSTERIES

To solve economic mysteries, it is necessary, of course, to know certain historical facts—for example, what was the New Deal? How did New Deal programs work? But facts by themselves often cannot explain interesting historical problems. In addition to information, it helps to have a well-defined intellectual framework with which to *approach* historical problems. A framework—consisting of a set of hunches or assumptions—is what enables investigators to get started. It points their inquiry in a certain direction, just as the well-founded assumptions of detectives tell them, for example, to find out who might have had a *motive* to commit a crime, and who among those with a motive also had the *means*.

*United States History: Eyes on the Economy* invites students to act like detectives. Instead of murder mysteries, however, students learn to solve economic mysteries implicit in important topics and themes in U.S. history. Like detectives and other people who solve problems, economists also work from a set of assumptions or principles about human behavior. These assumptions are derived from behavior analyzed over hundreds of years and reflected in a variety of cultures. They have power to help students describe and explain a wide range of human behavior from an economic perspective.

The program introduces these assumptions by means of a heuristic called the *Handy Dandy Guide (HDG)*. This device is a simple yet powerful summary of key principles of economic behavior. It may be used, in the way chemistry teachers use the periodic table of elements, to keep the principles firmly in the minds of the students. Here are the *HDG* principles:

**1. People choose.** People always face choices. People choose the alternative that gives them the most advantageous combination of costs and benefits. People choose even when those choices appear to be badly informed or in cases where choices are so limited that it appears there is no choice. Explicitly or implicitly, people make choices.

**2. People's choices involve costs.** People incur costs when making decisions, even when they appear to have paid nothing. One important way of assessing cost in economics is to consider the second best alternative that people give up when they make their best choice.

**3. People respond to incentives in predictable ways.** Incentives are rewards that encourage people to act. When incentives change, people's behavior changes in predictable ways.

**4. People create economic systems to influence choices and incentives.** Cooperation among people is governed by written and unwritten rules. As rules change, incentives change, and behavior changes.

**5. People gain when they trade voluntarily.** People trade when what they receive through trade makes them better off. If they expect no benefit, people will not trade.

**6. People's choices have consequences that lie in the future.** When people make decisions, they try to anticipate future costs and benefits. The future, of course, is uncertain, so decisions are risky and some decisions are mistaken.

Before applying economic principles to solve a mystery, students examine relevant historical facts. These facts derive from investigations conducted by historians. Through practice in applying economic principles to the analysis of historical facts, students learn to solve mysteries and gain, in the process, a greater understanding of U.S. history. This process of investigation, summarized in the following steps, recurs frequently in our lessons.

1. Review familiar facts from U.S. history.

2. Discover an economic mystery.

3. Apply economic principles summarized by the *Handy Dandy Guide*.

4. Discover historical facts revealed by the economic principles.

5. Formulate a tentative solution to the mystery.

6. Test the conclusions against other evidence or by applying them to current problems.

## SPECIAL FEATURES

In addition to stressing economic reasoning and facts from economic history, several lessons in *United States History: Eyes on the Economy* make use of special content, including the following:

1. Entrepreneurship case studies stressing the role of individuals in the economy.

2. The contributions of women and minorities to U.S. economic history.

3. The role of popular culture, including music and fashion, in U.S. history.

4. The conflicts faced by all decision makers, including politicians, as they attempt to achieve goals in a competitive environment.

5. The importance of money as an influence on historical events.

## INSTRUCTIONAL APPROACHES

The program lends itself well to instruction grounded in inquiry learning, direct instruction, and cooperative learning. It calls for students to be engaged in case studies, simulation exercises, and group work, as well as lectures, class discussion, reading, and writing. Moreover, the program takes into account the characteristics of the learner, striving to anticipate the economic misunderstandings that are common.

## FORMAT

*United States History: Eyes on the Economy* consists of two volumes. Volume One includes eight units; Volume Two, nine units. Unit One is repeated in Volume Two. The content is linked to material ordinarily found in secondary school U.S. history courses. Each unit contains a unit overview, two to seven lessons, and sample test items.

The lessons are designed to be used as independent units. Teachers should use the three lessons in Unit 1 to introduce the program. These lessons introduce key ideas (the use of economic reasoning and supply and demand analysis) that are elaborated in subsequent lessons.

Each lesson includes an introduction that summarizes the historical facts and economic principles to be used in the lesson, a concept list, instructional objectives, an estimate of the time required for instruction, and a list of instructional materials, including visuals for transparencies, and student activities. Each lesson also contains detailed teaching procedures. These procedures typically begin with a statement of purpose and include discussion questions, activities, anticipated responses, and answers to questions posed in the activities. Each lesson culminates with a closure activity that reviews learning, provides a lesson summary, or invites additional applications.

The program is designed for supplemental use with a secondary U.S. history textbook and is intended to integrate the study of history and economics. The program is not intended for use as a self-contained history course. It focuses only on the economic dimensions of U.S. history.

# ACKNOWLEDGMENTS

The National Council on Economic Education recognizes the contributions of many people involved in this project. The council staff and authors offer special thanks to the members of the national design team and to the field test teachers who helped plan and evaluate the materials.

## NATIONAL DESIGN TEAM

Janna Bremer teaches history in the King Philip School District, Massachusetts, and is National Council for the Social Studies liaison to the project.

James Clark is Professor of Economics at Wichita State University.

John S. Morton teaches in the Homewood-Flossmor School District.

Robert Reinke is Associate Dean of the College of Business at the University of South Dakota.

Tim Schilling is an economic education consultant.

Nancy Seay teaches history at Riverside University High School, Milwaukee, Wisconsin.

David Vigilant is liaison to the program from the California State Department of Education.

Victor Walne is a consultant to this project from the University of Cambridge, England.

Thomas Weiss is Professor of Economics at the University of Kansas and former editor, *Journal of Economic History*.

## FIELD TEST TEACHERS

Candice Allen, Centennial High School, Pueblo, Colorado; Kris Barnett, Jarman Junior High School, Midwest City, Oklahoma; Bob Brown, Shawnee High School, Shawnee, Oklahoma; Jennifer Fontanini, Wauwatosa East High School, Wauwatosa, Wisconsin; Mark Garner, Edmond High School, Edmond, Oklahoma; Jay Grenawalt, George Washington High School, Denver, Colorado; Clint Howard, Edmond High School, Edmond, Oklahoma; Paul Noack, Marquette University High School, Milwaukee, Wisconsin; Mary Oppegard, Shawnee High School, Shawnee, Oklahoma; Kathy Ratte, Chatfield Senior High School, Littleton, Colorado; Ron Sharp, Shawn High School, Shawnee, Oklahoma; Joe Trewyn, Custer High School, Milwaukee, Wisconsin; Donny J. Vass, Jarman Junior High School, Midwest City, Oklahoma; Judy Woodard, Jarman Junior High School, Midwest City, Oklahoma.

## EDITORS

Mark C. Schug and Richard D. Western of the University of Wisconsin-Milwaukee are the senior editors of *United States History: Eyes on the Economy*.

# SOLVING ECONOMIC MYSTERIES IN UNITED STATES HISTORY: A USER'S GUIDE

UNIT 1 INTRODUCES STUDENTS TO AN ECONOMIC way of thinking. It focuses on two curiosities of popular culture—Elvis Presley and the Hula Hoop—in an effort to engage students' interest. These topics also introduce the important point that economic history is the history of everyday life as well as the history of wars and presidents. Teachers should use all three lessons in Unit 1, since each one contributes to the mode of analysis that subsequent lessons will elaborate.

Lesson 1 introduces students to economic reasoning by confronting them with a mystery about Elvis Presley. Why do we keep hearing that Elvis is still alive? After learning how to use the *Handy Dandy Guide(HDG)*, the students analyze Elvis Lives reports in light of the idea that people make choices. People desire entertainment, and they are willing to pay for it. Tabloid newspaper publishers and editors, not concerned primarily about the accuracy of their stories, make money by providing what people want. When voluntary trade takes place between publishers and readers, both sides gain.

Lesson 2 uses examples from worldwide trade in textiles to enable students to practice the sort of economic reasoning introduced in Lesson 1. By reference to a mystery about diverse economic activity, students use economic reasoning to explain the connections among textile mills, whaling, and fur trapping.

Lesson 3 uses the example of the Hula Hoop to analyze how prices are incentives to producers and consumers. This lesson introduces the use of supply and demand graphs. Markets are a dominant force which have shaped much of U.S. history. Supply and demand analysis is a tool for understanding market behavior.

# SOLVING ECONOMIC MYSTERIES IN UNITED STATES HISTORY: A USER'S GUIDE

## INTRODUCTION

***History:*** Elvis Presley was a very popular rock and roll singer and movie star in the 1950s and 1960s. In 1977 he died and was buried in Memphis, Tennessee.

***Mystery:*** Since 1977, Elvis supposedly has been spotted in supermarkets and small towns across the United States. Why do people report having seen a dead man?

***Economic History:*** People make choices. They want entertainment, and they are willing to pay for it. Beginning in the late 1970s, publishers of tabloid newspapers found that they could make money by providing people with entertaining stories about Elvis Presley. Readers found that they enjoyed reading about Elvis. The voluntary trade between producers and consumers of tabloids left both sides feeling better off.

## CONCEPTS

Economize
Choice
Alternatives
Opportunity Cost
Benefits
Incentives
Economic System
Trade

## OBJECTIVES

♦ Identify six assumptions that guide economic analysis.

♦ Use the *Handy Dandy Guide(HDG)* as a guide to reasoning about economic mysteries.

## LESSON DESCRIPTION

This lesson uses introductory readings and discussion to explain to students what they will be studying and how they should approach solving economic mysteries in U.S. history. Students are introduced to the *Handy Dandy Guide(HDG)*, which summarizes principles they will use to solve economic mysteries.

## TIME REQUIRED

♦ One class period

## MATERIALS

One transparency of Visual 1.

One copy for each student of Activities 1, 2, 3, 4, and 5.

## PROCEDURE

1. Welcome students to the world of U.S. history and the economic mysteries to be encountered within it. Introduce the idea that economic events often puzzle people. Some publishers of newspapers, for example, give their papers away free. Why? Are they too rich or too foolish to care? When we encounter cases of this sort, we should not pretend to be unsurprised. Instead, we should pay close attention to the oddity of the case; it is in learning to explain such oddities or mysteries that we learn to understand history and economics. This lesson provides a first illustration of how it works.

2. Tell the class that to begin our study of the economic past, you will introduce a problem regarding reports that Elvis Presley is alive. Distribute Activity 1 to the class. After the students have read it, briefly review the facts involving sales (1 billion units), songs on the *Billboard* Pop Chart (100), films (31), and so on.

3. To underscore your emphasis on economic mysteries, distribute Activity 2 to the class. Ask the students to speculate about why so many people—especially those who write tabloid newspapers—report that Elvis is alive. (Accept a variety of answers.)

4. Explain that one way to solve this mystery is to deduce a plausible answer using certain assumptions as a starting point for thinking logically about the historical evidence. Point out that this approach to problem solving is often followed by famous detectives like the fictional Sherlock Holmes. Detectives like Holmes use

deduction to help solve mysteries. They proceed from a set of assumptions about how people act. Given an act of homicide, for example, they ask, who had a motive to commit it? Who had the opportunity? When trying to solve economic mysteries, we will use the same process of reasoning, but we will begin with a different set of assumptions.

5. Distribute Activity 3, the *Handy Dandy Guide*(*HDG*). Explain that Activity 3 introduces the assumptions students can use to solve economic mysteries. Stress the key assumption of the *HDG*: That historical events can best be understood as the result of human choices. For example, economic detectives ask: Why do people make the choices they make? What are the benefits? What are the costs?

6. Show how the *HDG* works by asking students to use it in thinking about possible explanations of the Elvis mystery. *Ask:*

A. What choices seem to be involved in continuing news reports that Elvis is really alive?

B. How do readers react after choosing to read the Elvis stories? Are they shocked by the stories' blatant falsehoods?

7. Distribute Activity 4 and divide the class into small groups. Explain that this handout shows how the *HDG* can be used to solve a mystery from an economic perspective. Allow the students time to read and discuss Activity 4, using the discussion questions as a guide. Discuss the group responses and ask:

A. Are the editors of tabloid newspapers forced to publish stories which claim that Elvis is alive? Are readers forced to read them? (No. Editors and readers *choose* to do this.)

B. What is the opportunity cost to editors of printing stories which claim that Elvis is alive? (The headline not used: for example, TALKING DOG RESCUES BABY FROM CAVE.)

C. What incentive or reward encourages editors to publish untrue stories about Elvis? (There is a financial reward for doing so.)

D. What rules operate in the tabloid newspaper business? (Successful tabloids depend on people choosing to buy stories that are of interest to them. Readers enjoy the entertainment and do not insist that the stories be accurate.)

E. How do readers, newspaper writers, and editors gain, respectively, when trade takes place among them? (Readers gain entertaining stories in exchange for money. Tabloid producers gain revenue.)

F. Will editors continue to publish these untrue stories about Elvis in the future? (Yes, as long as people remain willing to pay for such entertainment.)

## CLOSURE

Ask the students to review the points of the *HDG*. Stress the point that historical events are the results of human choices. This idea is central to economic reasoning about the past.

Distribute the *Handy Dandy Guide Cards* cut from Activity 5, giving one to each student. Ask the students to keep their cards nearby—in wallets or taped to history notebooks—so that they can be used whenever the students encounter instances of mysterious behavior in their subsequent work in U.S. history.

# Name____________________

# ACTIVITY 1

# ELVIS FACTS AT A GLANCE*

ELVIS PRESLEY HAS SOLD OVER 1 BILLION record units worldwide, more than any individual or group in the history of the record industry. No one else comes close. Laid end to end, these billion albums and singles would wrap around the earth at the equator more than twice.

Elvis has had no fewer than 149 songs to appear on *Billboard*'s Hot 100 Pop Chart in America. Of these, 114 were in the top forty, 40 were in the top ten, and 18 went to number one. His number one singles spent a total of 80 weeks at that slot. He has also had over 90 charted albums. These figures are for the pop charts only; he also had great success on the country, rhythm and blues, and gospel charts as well.

Elvis Presley's trophy room at Graceland is filled with gold and platinum records and awards of all kinds from United States and from around the world, including Norway, Yugoslavia, Japan, Australia, South Africa, England, Sweden, Germany, France, Canada, Belgium, and the Netherlands. It is interesting to note that, except for a handful of movie soundtrack songs, Elvis did not sing in other languages, and, except for three engagements in Canada in 1957, he did not perform outside the United States. Still, his recordings and films enjoyed, and continue to enjoy, popularity all over the globe. He is known throughout the world by his first name, and there are well over 250 active Elvis fan clubs worldwide—more clubs than any recording artist has ever had.

Elvis Presley's three network television specials stand among the most highly rated in American television history. His 1973 special, "Elvis—Aloha from Hawaii, via Satellite," was seen in 40 countries by 1 to 1½ billion people, and it made television history. It was seen on television in more American homes than the first walk on the moon.

Elvis starred in 31 feature films and two theatrically released concert documentaries, all of which enjoyed financial success. For a number of years he was one of Hollywood's top box office draws and one of its highest paid actors.

Elvis received 14 Grammy nominations from the National Academy of Recording Arts and Sciences (NARAS). His three wins were for gospel recordings. In 1971, when Elvis was 36, NARAS recognized him with its Lifetime Achievement Award.

The United States Jaycees named Elvis "One of the Ten Outstanding Young Men of the Nation" for 1970, one of Elvis's proudest moments. This award has been given since 1938 and has honored people of greatness in all areas of endeavor—sports, government, science, medicine, entertainment, and so on. It recognizes outstanding achievement and exemplification of the opportunities available in the free enterprise system, as well as humanitarianism and community service.

Graceland, Elvis Presley's home and refuge for 20 years, is today one of the five most-visited private homes in America, with over 600,000 visitors annually. It is also one of the most widely recognized private homes in America, and second only to the White House when all homes are considered.

---

**Thanks to Graceland for supplying these facts.*

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

Name____________________

# ACTIVITY 2

# *ECONOMIC MYSTERY*
# IS ELVIS DEAD?

WELCOME TO THE STUDY OF U.S. HISTORY and its economic mysteries! You will find your work interesting, complicated, confusing and fun. You can expect that result because history is about people, and people tend to be interesting, complicated, confusing, and fun. In an effort to reduce the complicated and confusing part, this lesson introduces one important approach to help you make sense out of people's behavior.

The first step in understanding people's behavior is to recognize that *events are the results of human choices.* Events could have been different if people had made different choices. Let's apply this idea to a problem: Is Elvis dead?

## IS ELVIS DEAD?

If you had visited the United States in 1958, you would have heard and seen a very popular singer perform. His name was Elvis Presley. His recordings (beginning in 1956 with "Heartbreak Hotel") and movies (he starred in over 30 films) were very popular during the 1960s. Even though he died in 1977 and was buried in Memphis, Tennessee, people say they have spotted him in supermarkets and small towns throughout the United States. Several best-selling books about him have been published. His records and movies continue to be popular, bringing in more money now than during the 1960s. Is Elvis dead? Well, he may be buried but . . . .

Why do people keep reporting that Elvis is alive? Is it simply that people are gullible? Is the evidence surrounding his death uncertain? These are reasons people often think of, but you can do better. Use the *Handy Dandy Guide (HDG)* questions from Activity 3 to help you explain why we continue to hear that Elvis is still alive.

Name____________________

## ACTIVITY 3

## *HANDY DANDY GUIDE (HDG)*

1. **People choose.**
   What is the choice being made?
   Who is making the choice?
   What other alternatives are available?
   What are the benefits of each alternative?

2. **People's choices involve costs.**
   What are the costs of each choice?
   What are the alternatives?
   What is being refused?

3. **People respond to incentives in predictable ways.**
   What are the expected costs?
   What are the expected benefits?
   Do the people involved understand the costs and benefits associated with the choice?

4. **People create economic systems that influence individual choices and incentives.**
   What are the rules of the system?
   How were the rules created?
   Who enforces the rules?
   How might the rules have changed?

5. **People gain when they trade voluntarily.**
   Why is exchange taking place or not taking place?
   How do these choices influence trade and exchange?
   Are some of the exchanges nonvoluntary?

6. **People's choices have consequences that lie in the future.**
   What costs and benefits do you foresee?
   How risky (likely to lead to an unfavorable outcome) is the choice being made?

Name________________________

# ACTIVITY 4
# A NEW AUTOPSY FOR ELVIS

***Why do people keep reporting that Elvis Presley is alive? The following analysis uses the principles from the Handy Dandy Guide (HDG) to perform an "economic autopsy" on Elvis.***

## PRINCIPLE 1
## PEOPLE CHOOSE.

Elvis Presley is dead. His body was examined by medically trained professionals. An autopsy was performed on his body, and he was buried. Then why would a newspaper sold in supermarkets feature a headline proclaiming ELVIS IS ALIVE: SEEN IN MEMPHIS SUPERMARKET!? Well, it didn't happen by accident. Editors of that newspaper chose to write a false headline! They could have made a decision not to do it and written a different headline.

People make choices every minute, every day. Whom should they talk to? Which clothes should they buy? What do they want to eat? Economists argue that all actions—by individuals or groups—are the result of choices made by individuals. Moreover, economists say, people ***economize*** in their choices. They select the course of action they believe will provide them with the most advantageous combination of benefits and costs. If we understand the costs and benefits that are at stake when choices are made, we can understand and explain unusual behavior.

## PRINCIPLE 2
## PEOPLE'S CHOICES INVOLVE COSTS.

This principle deals with the consequences of human ***choice***. Choosing actually involves two decisions: choosing and refusing. Choosing is selecting among two or more ***alternatives***. But notice this: By choosing one alternative an individual must give up, or forgo, the other best alternative. The newspaper editors who selected stories about Elvis could have chosen several other headline stories: TALKING DOG RESCUES BABY FROM CAVE, PREGNANT MAN HAS TWINS, SPACE ALIENS VISIT ATLANTA. From the possible alternatives they selected the Elvis headline and gave up their next favorite headline—perhaps TALKING DOG RESCUES BABY FROM CAVE. In using economic reasoning we attempt to understand the decisions people make by looking at the best alternative not chosen. The choice not selected is called the ***opportunity cost***. It is what people give up when they make a choice. In this case the newspaper editors chose the Elvis headline, giving up the talking dog rescue headline. They must have thought the Elvis headline was better than the next best alternative, even though it was inaccurate.

## PRINCIPLE 3
## PEOPLE RESPOND TO INCENTIVES IN PREDICTABLE WAYS.

***Incentives*** encourage people to act. (Something that discourages people from acting is called a *disincentive*.) A change in incentives usually involves an increase in benefits or a reduction in the cost of actions. When incentives change, the choices people make also change, predictably.

What incentives influence your choices? How hard do you work to prepare for a test if you receive a high grade for answering test questions correctly? Would you work as hard to prepare for the test if all students were to receive the same grade no matter how many questions each answered correctly?

History helps us to understand which incentives have influenced people most strongly at a certain time, and it also shows how incentives have changed over the years. Since changes in incentives influence choices, we can draw reasonable conclusions about the causes of historical events if we know which incentives were influential at the time in question. It is a safe bet that the tabloid newspaper publishers and editors we've referred to were responding to definite incentives when they made their headline decisions about Elvis. Newspaper publishers and editors benefit financially when they sell many newspapers.

## PRINCIPLE 4
## PEOPLE CREATE ECONOMIC SYSTEMS THAT INFLUENCE INDIVIDUAL CHOICES AND INCENTIVES.

Individual choices are influenced by the rules and customs of the economy of a country. All people must work together to provide goods and services such as food, clothing, shelter, transportation, education, and entertainment. How people

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

work together is governed by written and unwritten rules, and these rules influence personal incentives. For example, laws and contracts are written rules in our economy, while treating customers courteously (the customer is always right) is an unwritten rule. History describes for us the rules and customs of other economies at other times. We are apt to misunderstand the past if we assume that those rules and customs have always been the same.

Newspapers operate within a system of formal and informal rules. One rule is that their success is influenced by the choices their customers make. Customers will buy newspapers that publish interesting news stories. But customers may not always insist that all stories be accurate or truthful. This relationship between the newspaper and its readers helps explain the editors' behavior. They could write, accurately, ELVIS IS DEAD, but many people who are Elvis fans also buy tabloid newspapers and apparently have little interest in reading that Elvis is dead. Even though they know he is dead, however, they seem to enjoy reading stories that say he is alive. And some editors have been happy to give readers the story they are interested in reading. As a result, "Elvis is Alive" stories proliferated in the late 1970s.

## PRINCIPLE 5
## PEOPLE GAIN WHEN THEY TRADE VOLUNTARILY.

People throughout the world ***trade*** with other people, voluntarily, to gain the goods and services they want. They have done so throughout human history. Why? Because people can improve their situation by trading something they value less for something they value more.

Producers of tabloid newspapers provide stories to the reading public. The reading public gives up money in exchange for the opportunity to read entertaining stories. Readers could be entertained in other ways, of course, but some choose to read these newspapers. The entertainment from the stories is what they gain. The money they spend, which they could have spent on something else (opportunity cost—remember?), is what they give up. The newspaper editors give up their time and energy, which is their cost. The newspaper's income, which is shared with them, is their gain.

Apparently all parties are content with this trading relationship. Consumers make voluntary choices to buy the paper. Because the newspaper sells well, the writers and editors have steady work. Either the consumers or the producers could choose to change their behavior. There is no law requiring tabloid newspapers to print inaccurate stories, nor any law requiring consumers to buy them.

## PRINCIPLE 6
## PEOPLE'S CHOICES HAVE CONSEQUENCES THAT LIE IN THE FUTURE.

All choices involve risk. We don't know for certain that our choices will work out as we would like them to. The newspaper publishers and editors have no guarantee that the public will buy newspapers telling a misleading story. Producing such newspapers involves a risk on their part. Potential readers might be offended by the deception and refuse to buy the inaccurate paper. Such a reaction might cost the writers and editors their jobs. Moreover, depending on what a false story says, it might make an editor or publisher vulnerable to a costly lawsuit.

## A LOOK INTO THE FUTURE

So how will it all turn out? Well, rumor has it that 16 percent of the American public choose to believe that Elvis is still alive. No wonder, then, that newspapers have used Elvis headlines many times since the first such issue, and no wonder that the newer issues continue to sell very well. Elvis may be dead and buried, but his music and legend will live in the bookstores, music stores, and tabloids in grocery checkout lines as long as there is money to be made from the use of his name.

## QUESTIONS FOR DISCUSSION

1. Are the editors of tabloid newspapers forced to publish stories that claim Elvis is alive? Are readers forced to read them?

2. What is the *opportunity cost* to editors of printing stories that claim that Elvis is alive?

3. What incentive or reward encourages editors to publish untrue stories about Elvis?

4. What rules operate in the tabloid newspaper business?

5. How do readers and newspaper writers and editors gain, respectively, when trade takes place among them?

6. Will editors continue to publish these untrue stories about Elvis in the future?

# ACTIVITY 5

### HANDY DANDY GUIDE (HDG)

1. People choose.
2. People's choices involve costs.
3. People respond to incentives in predictable ways.
4. People create economic systems that influence individual choices and incentives
5. People gain when they trade voluntarily.
6. People's choices have consequences that lie in the future.

HANDY DANDY GUIDE (HDG)

1. People choose.
2. People's choices involve costs.
3. People respond to incentives in predictable ways.
4. People create economic systems that influence individual choices and incentives
5. People gain when they trade voluntarily.
6. People's choices have consequences that lie in the future.

HANDY DANDY GUIDE (HDG)

1. People choose.
2. People's choices involve costs.
3. People respond to incentives in predictable ways.
4. People create economic systems that influence individual choices and incentives
5. People gain when they trade voluntarily.
6. People's choices have consequences that lie in the future.

HANDY DANDY GUIDE (HDG)

1. People choose.
2. People's choices involve costs.
3. People respond to incentives in predictable ways.
4. People create economic systems that influence individual choices and incentives
5. People gain when they trade voluntarily.
6. People's choices have consequences that lie in the future.

HANDY DANDY GUIDE (HDG)

1. People choose.
2. People's choices involve costs.
3. People respond to incentives in predictable ways.
4. People create economic systems that influence individual choices and incentives
5. People gain when they trade voluntarily.
6. People's choices have consequences that lie in the future.

HANDY DANDY GUIDE (HDG)

1. People choose.
2. People's choices involve costs.
3. People respond to incentives in predictable ways.
4. People create economic systems that influence individual choices and incentives
5. People gain when they trade voluntarily.
6. People's choices have consequences that lie in the future.

# THE UNITED STATES AND THE GLOBAL ECONOMY

## INTRODUCTION

***History*** Beaver hats and other fur products were popular in Europe and the United States in the early 1800s. So were whale products, which were used in manufacturing whale oil and corsets. Trade for furs, fabrics, and whales was once part of a worldwide economic system linking life in the early United States to the life of people in many other parts of the world.

***Mystery*** Why would people who did not know each other, who spoke different languages, who fought wars with each other, who had different cultures, and who lived in different parts of the world be willing to trade with each other?

***Economic History*** Consumers of clothing chose to buy specific fabrics and fashions. This behavior provided incentives to producers to find and use resources that provided fashionable clothing and popular fabrics. To gain rewards by satisfying consumers, producers specialized and traded. Geographic barriers made trade difficult but did not prevent it altogether. Voluntary trade between producers and consumers of clothing created gains and encouraged future economic activity.

## CONCEPTS

Economic System
Trade

## OBJECTIVES

- ♦ Examine an economic mystery about world trade in the early 1800s.
- ♦ Practice economic reasoning by using one or more key assumptions in the *Handy Dandy Guide (HDG)* to formulate hypotheses explaining world trade.
- ♦ Analyze consumer demand as an incentive that encourages world trade.

## LESSON DESCRIPTION

Students discuss an economic mystery and read case studies about fur trading and whaling.

## TIME REQUIRED

- ♦ One class period

## MATERIALS

One transparency each of Visuals 1, 2, and 3.
One copy for each student of Activities 1 and 2.

## PROCEDURE

1. Remind the class that it is easy today to see that we live in a global economy. Notice, for example, where the cars in the school parking lot were made or the countries identified on the manufacturer's label of shirts and sweaters. Students may not know, however, that the United States has participated in a global economy throughout its history.

2. Pose the economic mystery for this lesson by displaying Visual 1 on the overhead projector. Ask the students to speculate about why strangers might choose to cooperate.

3. Display Visual 2, the *Handy Dandy Guide*. Explain that several economic principles might explain the cooperation among strangers in the early 1800s. For example, the people in question are probably responding to incentives (Principle 3), the rules of the economic system probably encourage them to cooperate (Principle 4), and they probably gain from their participation in voluntary trade (Principle 5).

4. Explain to the class that they are going to press further in their investigation of world trade in the 1800s by examining the cases of whalers and fur traders.

5. Distribute Activities 1 and 2. Divide the students into small groups. Ask each group to use economic reasoning and the information in the *Fact Sheets* to predict why whalers and fur traders made the choices they did. Display Visual 2 to remind them of the rules of economic reasoning.

6. Before the groups actually begin work, display Visual 3. Explain what corsets were and that wearing corsets was fashionable during this time.

7. After the groups have completed their work, discuss their responses to the questions in Activity 1. The following are sample responses.

A. Why would anyone become a whaler? (People were willing to pay high prices in exchange for whale products. Whale oil, for example, made excellent lamp fuel. High prices provided an economic incentive to find whales. This opportunity, while it involved very difficult work, was attractive to young men from New England who did not have better economic opportunities.)

B. Why was whalebone used in corsets? (The flexible whalebone was perfect for women's corsets.)

C. Why did whalers from New England search for whales in the Pacific Ocean? (Whales were becoming scarce, but few substitutes existed for products from whales. High prices for whale products provided incentives for far–reaching exploration by owners of whaling ships.)

D. Why did the whaling industry decline? (As whales became scarcer and the costs of finding them increased, prices of whale products increased until eventually they created new incentives for people to seek substitutes for whale products, petroleum, for example.)

8. Discuss the group responses to the questions in Activity 2. The following are sample responses.

A. Why would anyone become a fur trapper? (People in the eastern United States and in Europe were willing to pay high prices for beaver pelts, which were used in manufacturing hats. High prices for beaver pelts provided fur traders with an incentive to find beaver and other furs. This opportunity, which entailed difficult and dangerous work, was attractive to young men who were not able to afford farmland in the East or Midwest.)

B. Why did American fur trappers pose a threat to British trading companies? (The British traded with Native Americans. Increased competition from Americans might reduce their profits.)

C. Why would silk from Asia replace beaver as a material for men's hats (As beaver pelts became scarce and the costs of finding them increased, new incentives developed for people to seek substitutes for beaver, silk from Asia, for example.)

## CLOSURE

Review the key ideas of the lesson. Ask: Why do people trade? (Consumers are willing to pay high prices for goods they want. When the rules of the economic system permit trade, prices become incentives to producers, prompting them to produce the goods.)

# VISUAL 1

# *ECONOMIC MYSTERY*

# WHY DO STRANGERS COOPERATE?

People who lived in the early 1800s did some strange things. Why would people who did not know each other, who spoke different languages, who fought wars with each other, who had different cultures, and who lived in different parts of the world be willing to cooperate with each other through trade?

For example, why might whalers in the North Atlantic, owners of cotton plantations in the southern United States, owners of textile mills in England, trappers in the Rocky Mountains, owners of retail stores in Boston, New York, St. Louis, and London, hatmakers in Europe, and operators of stage lines, railways, and boats moving raw materials be willing to trade with each other when there was no law and no plan that said they must?

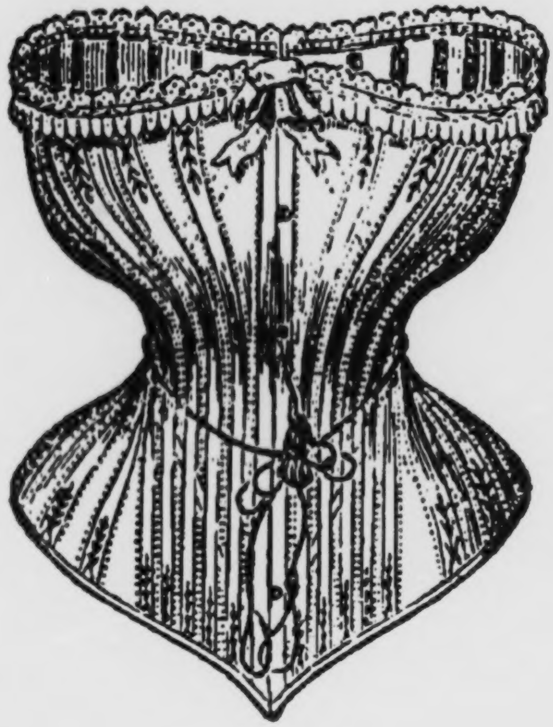
From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

# VISUAL 2
# *HANDY DANDY GUIDE (HDG)*

1. People choose.
2. People's choices involve costs.
3. People respond to incentives in predictable ways.
4. People create economic systems that influence individual choices and incentives.
5. People gain when they trade voluntarily.
6. People's choices have consequences that lie in the future.

## VISUAL 3

# A CORSET



From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

# Name______________________

# ACTIVITY 1
# WHALE OUT

## DIRECTIONS

Read *Glimpse of a Whaler's Life* and the *Fact Sheet* that follows. Then return to the questions to write your predictions, being careful to apply economic reasoning. The first answer is provided as an example.

## GLIMPSE OF A WHALER'S LIFE

Imagine the life of a whaler. Your ship is away from port for months, maybe years. Fresh food is rare. So is fresh water. Violent storms develop at sea. You have no privacy, work for long periods of time at hard jobs, and will not see family or friends until you return. You could suffer from disease or malnutrition, risk serious or fatal injuries, and live in constant fear of the possibility that your ship will sink in a storm.

## QUESTIONS

1. Why would anyone become a whaler?
***Prediction:*** Buyers were willing to pay high prices for whale products. High prices were economic incentives to find whales. While whaling was difficult work, its wages were attractive to young men without better alternatives.

2. Why was whalebone used in corsets?
***Prediction:***

3. Why did whalers from New England operate in the Pacific Ocean?
***Prediction:***

4. Why did the whaling industry decline in the mid–1800s?
***Prediction:***

## FACT SHEET

1. Most whalers came from New England in the 1700s or early 1800s.
2. Farmland in New England was fairly easy to obtain in the 1600s but became more expensive after that.
3. Younger sons in New England could not expect to inherit a family farm.
4. In the early 1700s, fishermen in New England discovered that oil from the sperm whale made an excellent lamp fuel. People were willing to pay high prices for whale oil.
5. Petroleum, natural gas, and electricity were developed as fuel sources starting in the mid–to–late 1800s.
6. Factory jobs in New England and elsewhere became commonly available starting in the mid–to–late 1800s.
7. Whaling in the Atlantic Ocean required whalers to spend relatively short times away from a New England home port, but by the late 1800s, it had become difficult to find whales in the Atlantic.
8. The more parts of a whale that a whaler could sell, the more profit the whaler would earn for each whale caught.
9. Whalebone is a flexible material that can take pressure without breaking, much like many modern plastics.
10. Corsets were worn by women who wished to appear fashionable.

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

Name______________________

# ACTIVITY 2
# FEELING TRAPPED

## DIRECTIONS

Read the following *Glimpse of Trapping and Trading*, and the *Fact Sheet* that follows. Then return to the questions to write your predictions being careful to apply economic reasoning.

## GLIMPSE OF TRAPPING AND TRADING

Imagine the life of a fur trapper or trader. You must catch and kill your meals. If you want a roof over your head, you must build it. You will live through winters of bone–chilling cold and raging blizzards, in remote areas. Although you may see Native Americans or other trappers on occasion, you may also live for months without seeing another human being.

## QUESTIONS

1. Why would anyone become a fur trapper?
***Prediction:***

2. Why did American fur trappers pose a threat to British trading companies?
***Prediction:***

3. Why would silk from Asia replace beaver pelts as a material for men's hats?
***Prediction:***

## FACT SHEET

1. British and French trading companies in the 1700s and early 1800s bartered guns, knives, beads, whiskey, and other manufactured goods for beaver and other fur pelts trapped by Native Americans.
2. By the 1820s, good farmland was available in the East and Midwest regions of the UNITED STATES, but was often expensive.
3. People in Europe and the eastern United States were willing to pay high prices for fashionable hats.
4. Beaver fur can be pressed into a shiny, strong material that holds its shape.
5. American fur trappers received money for the pelts they sold.
6. Hats were made in England and in the United States.
7. In the 1820s, so many beaver lived in the lakes and rivers of the Rocky Mountains that people traveling near the lakes and rivers heard the sharp sound of a beaver's tail hitting water almost every minute.
8. By the 1840s, trappers had captured hundreds of thousands of beaver.
9. Clipper ships were great sailing vessels that could travel from the Atlantic Ocean to the Pacific in months.
10. Silk from Asia can be used to make hats much like those made from beaver.

# THE HULA HOOP MARKET OF 1958

## INTRODUCTION

***History*** As the U.S. economy grew in the 1950s, people had more leisure time. Some businesses became successful producing products and services designed to be used during leisure time. The Hula Hoop created by Wham–O Manufacturing Company was one example.

***Mystery*** Why would young people risk their time and money to manufacture a product that Americans had never heard of and which served no practical purpose?

***Economic History*** To nearly everyone's surprise, people were willing to produce and consume Hula Hoops in 1958. In a market economy, prices act as incentives to sellers as well as buyers. The anticipation of what seemed then to be a high retail price for Hula Hoops encouraged Richard Knerr and Arthur Melin of Wham–O Manufacturing Company to produce Hula Hoops. Lower anticipated prices would have discouraged production. This relationship is known as the law of supply. Prices also act as incentives to buyers. Higher prices for Hula Hoops would discourage consumers from buying them. Low prices encourage consumers to buy Hula Hoops. This relationship is known as the law of demand. The interaction of sellers and buyers caused the price of Hula Hoops to be relatively high in 1958.

## CONCEPTS

Demand
Supply
Market
Price
Incentive
Surplus
Shortage

## OBJECTIVES

- ♦ Analyze prices as incentives to producers and consumers
- ♦ Use supply and demand diagrams to examine how setting the market price above or below equilibrium causes shortages or surpluses.

## LESSON DESCRIPTION

Students discuss a mystery regarding the manufacture of Hula Hoops. Students examine a series of supply and demand diagrams and use them to explain the production of Hula Hoops in 1958.

## TIME REQUIRED

- ♦ One class period

## MATERIALS

One transparency each of Visuals 1, 2, 3, and 4.
A Hula Hoop, if you can find one.

## PROCEDURE

1. Explain that the purpose of this lesson is to learn about the economics of a popular fad in the 1950s. Tell the class that shorter workweeks and increased income gave many Americans increased leisure time in the 1950s. Some Americans read more books. Some watched the newest television programs like "The Honeymooners," "Ozzie and Harriet," and "Gunsmoke." Many Americans—young and old—used some of their time to play with Hula Hoops.

2. Display Visual 1 and invite students to speculate about the solution to the mystery. If you were able to find one, demonstrate how a Hula Hoop works. Or, ask a student to do the demonstration.

3. Explain to the class that the invention of the Hula Hoop in the 1950s might seem a trivial event. However, millions of Hula Hoops sold from 1958–1959. We can learn a great deal about economic behavior in the past and the present by studying the Hula Hoop market.

4. Tell the class that people in 1958 enjoyed playing with Hula Hoops during their spare time. Some people even competed in Hula Hoop contests to see how long they could keep one spinning. Because people enjoyed the entertainment offered by owning a Hula Hoop, they were willing to pay relatively high prices for Hula Hoops in the late 1950s. In a market economy, ***prices*** act as incentives to buyers and sellers.

5. Explain that Richard Knerr and Arthur Melin of Wham-O Manufacturing Company believed American consumers would choose to buy millions of Hula Hoops. Their reward would be a profit from the sales.

6. Explain how prices served as ***incentives*** (and disincentives) to buyers of Hula Hoops by displaying Visual 2. Direct the students' attention to Point A on the graph and highlight the price ($1.50) and number sold (20 million) at Point A. Explain that higher prices for Hula Hoops would have discouraged buyers from purchasing a large number of Hula Hoops. Direct the students' attention to Point B on the graph and highlight the price ($0.50) and number sold (40 million). Show how lower prices would have encouraged buyers to purchase a greater number of Hula Hoops. This idea that at higher prices buyers would purchase fewer and at lower prices buyers would purchase more is known as the law of ***demand***.

7. Explain that prices in economic history also served as incentives to sellers of Hula Hoops. Prices offered producers opportunities to earn profits. Display Visual 3. Direct the students' attention to Point C on the graph. Explain that higher prices for Hula Hoops ($1.50) would have encouraged producers to produce more Hula Hoops by noting the number (40 million) they would have been willing to sell at this price. Direct the students' attention to Point D on the graph. Show how lower prices would have discouraged producers from producing Hula Hoops by noting the number they would be willing to sell at this price ($0.50). This idea that at high prices producers would produce more and at low prices they would produce fewer is known as the law of ***supply***.

8. Knerr and Melin knew about the laws of demand and supply. How do you think this knowledge influenced their thinking? (No one knew what the price of Hula Hoops should be. Too high a price would discourage buyers. Too low a price would discourage sellers. Knerr and Melin were betting that buyers were willing to pay relatively high prices.)

9. To explain the concept of ***market clearing price***, display Visual 4. Direct the students' attention to Point E. It shows the market clearing price ($1.00) for Hula Hoops in 1958. At this point, the number demanded equals the number supplied. If sellers charged more than $1.00, buyers would not be willing to purchase as many Hula Hoops and a ***surplus*** of Hula Hoops would develop. Illustrate this by tracing a line from any price above the market price to the demand line. Then, trace a line to the number that consumers would purchase at this price and the number producers would produce. At prices above $1.00, producers would produce more Hula Hoops, but consumers would buy fewer. Continue to display Visual 4.

10. If sellers charged less than $1.00, buyers would quickly purchase the number produced and there would be a Hula Hoop ***shortage***. Illustrate this by tracing a line from any price below the market price to the number that producers would produce and the number consumers would buy. At prices below $1.00, consumers would buy up all the Hula Hoops and still want more.

## CLOSURE

Point out that this lesson demonstrates how prices are incentives to buyers and sellers. Then introduce a new example: In the early 1990s, some entrepreneurs planned to introduce Hula Hoops in China. But they did not know what price to charge. With this situation in mind, ask the following:

A. How will Chinese buyers react if prices are high? (They will buy fewer Hula Hoops.)

B. How will Chinese buyers act if prices are low? (They will buy more.)

C. How will Chinese sellers act if prices are high? (They will produce or import more.)

D. How will Chinese sellers act if prices are low? (They will produce or import fewer.)

E. What is the market clearing price? (The price where the quantity demanded equals the quantity supplied.)

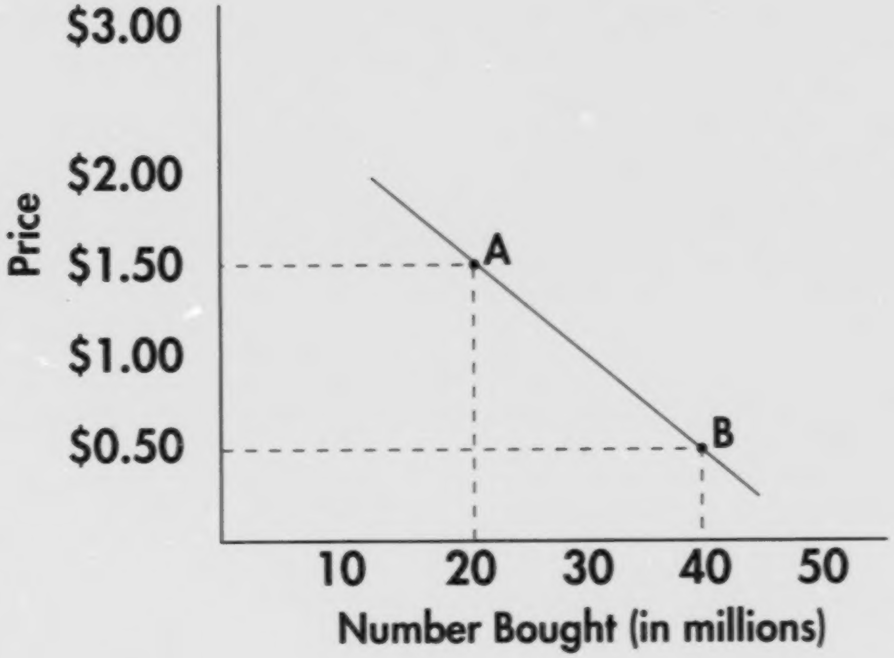
# VISUAL 1

# THE GREAT HULA HOOP MYSTERY OF 1958

Why would Richard Knerr and Arthur Melin, young people, risk their valuable time and money to mass produce an unfamiliar product that served no practical use, and might even be dangerous? Why would anyone mass produce big hoops of brightly colored polyethylene tubing?

## VISUAL 2

# DEMAND FOR HULA HOOPS

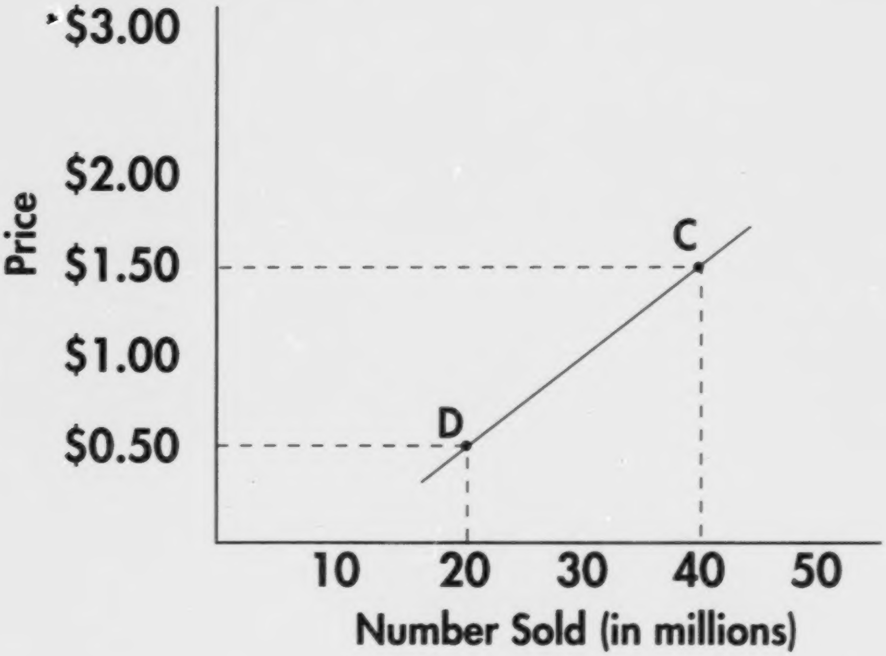


A = PRICE IS A DISINCENTIVE TO BUYERS

B = PRICE IS AN INCENTIVE TO BUYERS

# VISUAL 3

# SUPPLY OF HULA HOOPS



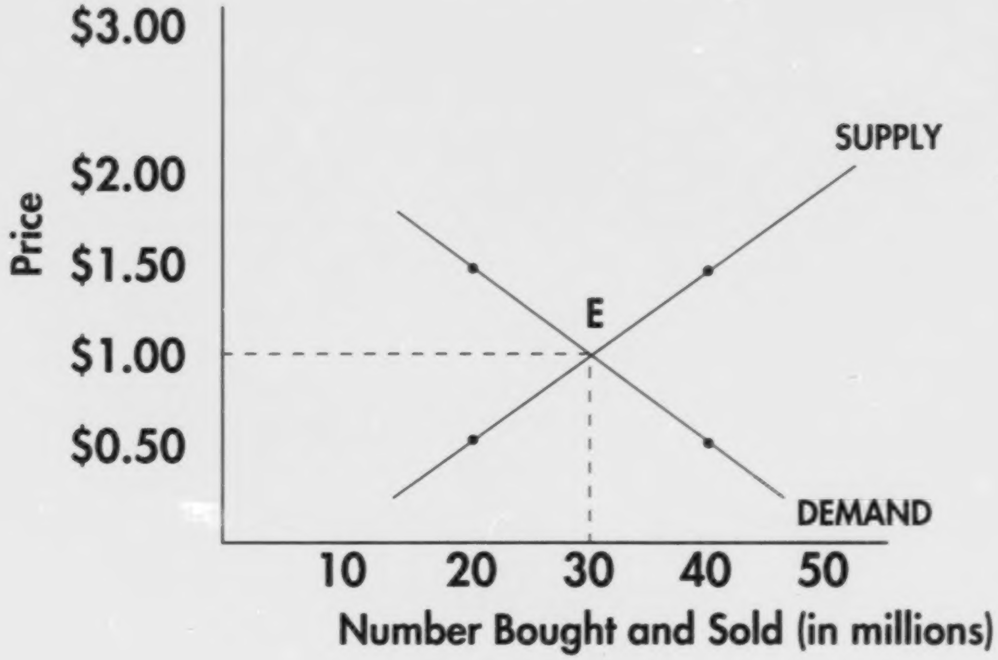
C = PRICE IS AN INCENTIVE TO SELLERS

D = PRICE IS A DISINCENTIVE TO SELLERS

From *United States History: Eyes on the Economy,* ©National Council on Economic Education, New York, N.Y.

## VISUAL 4

# MARKET PRICE FOR HULA HOOPS



**$1.00 = THE MARKET CLEARING PRICE,
WHERE THE QUANTITY DEMANDED
EQUALS THE QUANTITY SUPPLIED.**

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

# SAMPLE TEST ITEMS

## LESSON 1

1. Which of the following statements is not part of the *Handy Dandy Guide*?

A. All actions involve cost.
B. Voluntary trade creates gains.
C. People respond to incentives in predictable ways.
✓D. People have no choice over what happens to them.

2. Which of the following actions might discourage newspaper editors from falsely reporting "Elvis Sightings"?

A. Newsstands order twice the usual number of newspapers if the newspapers feature an Elvis picture and headline.
✓B. Sales decline when a newspaper features an Elvis picture and headline.
C. A lawsuit is filed by the Presley estate asking for $100,000 in damages. Newspaper sales increase by 100 percent as a result of the publicity.
D. Elvis Presley's birthday becomes an official national holiday.

3. Rap Hammer voluntarily chooses to trade a computer and printer for Madonna Hill's motorcycle. What costs are involved in this trade and which person(s) gained from the trade?

*Possible answer:* Both people gain from the trade because they value the item they acquired more than the item they gave up. The cost for Rap Hammer was a computer and printer. The cost for Madonna Hill was a motorcycle.

## LESSON 2

1. Why do strangers trade goods and services?

A. Most people enjoy working with strangers.
B. People like the challenge of working with people who speak a different language.
✓C. People hope to gain by trading with strangers.
D. People cooperate in very random ways which cannot be explained by economic reasoning.

2. Whaling is a dangerous business with high costs. People are at sea for months at a time. Ships are expensive. Why did whalers put up with these high costs of production?

A. Whalers are all adventurous people who like to risk their lives.
✓B. Customers want whalebone to make corsets and are willing to pay whalers to provide whalebone.
C. Whalers have no other job skills, so they must hunt whales for a living.
D. Whalers are required by law to hunt whales.

3. Which of the following clues indicate why customers switched from buying beaver hats and began buying silk hats?

✓A. The price of silk hats was lower than the price of beaver hats.
B. All the beaver were killed by trappers, so hat producers no longer made beaver hats.
C. Silk appealed to customers because international trade was involved in the production of hats.
D. Silk is produced by worms.

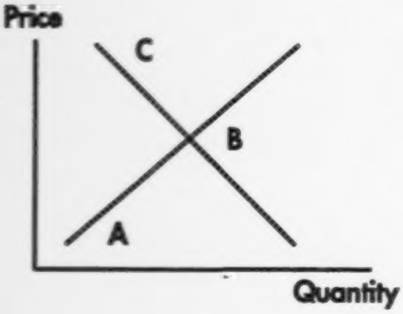
4. Use two or more HDG statements to explain why petroleum producers helped save whales from extinction during the late 1800s.

*Possible answer:* Petroleum can be used as a substitute for whale products. Since petroleum was less costly to produce and easier to find than whales were, its price was lower than whale oil, so customers and producers of energy turned to the use of petroleum products and away from whale-based energy products. As costs were reduced (*HDG* 2), people responded to the lower price which resulted as an incentive to change their energy use behavior (*HDG* 3).

## LESSON 3

1. Imagine these scenes. The year is 1958. Yesterday you walked past a store window attracting very few customers. Today that same store has a large sign in the window that reads: HULA HOOPS ON SALE: LOWEST PRICE IN TOWN. Many customers are lined up, buying Hula Hoops. This is an example of what principle?

A. Strength
B. The law of supply.
C. An externality.
✓D. The law of demand.



2. The market clearing price is best described as

A. The price which is too high for the average consumer.
✓B. The price that equates the quantities suppliers and demanders are willing and able to buy.
C. The low price that clears the market of goods and services, causing a shortage.
D. The high price that causes a surplus.

3. Which point on the following graph is located on the supply curve?

✓A. Point A
B. Point B
C. Point C

4. In a market economy, prices are established by:

✓A. Sellers and buyers as they respond to incentives.
B. Sellers as they respond to incentives.
C. Buyers as they respond to incentives.
D. Government officials as they respond to incentives.

# THE FIRST AMERICANS

UNIT 2 INTRODUCES STUDENTS TO the idea that human behavior in all cultures may be described and explained by use of the same set of economic principles. While cultures differ with respect to technology, types of production, and government, people in each culture respond to problems and opportunities in ways we can understand by reference to the economic principles summarized by the *Handy Dandy Guide (HDG)*.

Lesson 1 invites the students to examine three case studies describing the economic behavior of the Choctaw, Iroquois, and Pueblo. Each case is explored by referring to the principles of the *HDG*.

Lesson 2 continues to develop the idea that behavior in all cultures reflects the same set of economic principles. Students are presented with two mysteries involving wampum and migration.

# THE NEW WORLD WAS AN OLD WORLD

## INTRODUCTION

***History*** When explorers and colonists first entered the territory that is today the United States, diverse groups of indigenous people populated the land.

***Mystery*** Native American cultures were vastly different from the culture of the Europeans they encountered. Yet, the behavior of Native American people can be understood by means of the same economic principles which help explain European behavior. Why?

***Economic Reasoning*** All Native Americans faced the problem of scarcity. They developed rules for their economic systems, and these rules guided the choices they made in coping with the problem of scarcity.

## CONCEPTS

Scarcity
Opportunity Cost
Specialization and Trade
Economic Systems

## OBJECTIVE

♦ Use principles from the *HDG* to analyze instances of Native American behavior.

## LESSON DESCRIPTION

Students are divided into groups and given copies of three case studies. In each case study, they identify one example of each *HDG* principle.

## TIME REQUIRED

♦ One class period.

## MATERIALS

One transparency each of Visuals 1 and 2.
One copy for each student of Activities 1, 2, and 3.
A wall map of the world.

## PROCEDURE

1. Display a wall map of the world to the class. Explain there is one thing we know about people everywhere—Americans, Russians, Nigerians, and Vietnamese—they all make economic decisions. We can understand economic behavior in any culture according to certain principles.

2. Display Visual 1 (the *Handy Dandy Guide*) to the class and review it briefly.

3. Distribute Activities 1, 2, and 3 to each student. Explain that these are case studies that tell how three Native American peoples, the Choctaw of the Southeast, the Iroquois of the Northeast, and the Pueblo of the Southwest, lived before Europeans entered their regions. Like the Europeans of that time, these Native Americans had developed economic systems. In many ways, the Native Americans lived as well as the average Europeans of the same time period. However, like Europeans, Native Americans faced economic choices.

4. Display Visual 2. Orient students to the location of these groups.

5. Divide the students into groups of three to four. Assign each group to read the three case studies and to find, in each case study, one example of behavior illustrating each of the six principles of *HDG*. One student in each group should record the group's six examples. Since the six *HDG* principles overlap, students may differ in their identification of examples. Some suggested answers are:

**A. PEOPLE CHOOSE.**

(Choctaw chose to raise corn and beans together to preserve the fertility of the soil. They were choosing the anticipated benefits and costs most advantageous to them. Raising corn and beans together seemed to be the best alternative. Choctaw produced more corn than they needed and traded it for desirable goods they couldn't produce.)

(Iroquois chose to move. When the fertility of the soil around their villages was exhausted, they found the costs and benefits of moving to new land more advantageous than those of staying where they were.)

(Pueblo chose to increase benefits by using irrigation to raise crops that otherwise would not have grown in the dry land where they lived. Modern Pueblos can often attain a higher standard of living by choosing to work at jobs outside their pueblos.)

**B. PEOPLE'S CHOICES INVOLVE COSTS.**

(Choctaw overhunted the buffalo who lived in the southeastern forests. One cost of the meat and skin they acquired at any time was meat and skin they would be unable to acquire in future years.)

(Iroquois went to war to obtain beaver pelts and European trade goods. An economic cost of war was the products that could have been produced by young men lost in wars.)

(Pueblo men chose to hunt less and farm more; they used considerable labor to keep irrigation systems working. One cost of more agricultural products was meat the men might have obtained if they had hunted more.)

**C. PEOPLE RESPOND TO INCENTIVES IN PREDICTABLE WAYS.**

(Choctaw specialized in crafts, such as tool-making, because they knew they could give their tools as gifts and receive presents in return. Gift-giving and receiving constituted a system of incentives.)

(Iroquois expanded warfare in order to obtain beaver pelts that they could trade for valuable European trade goods. European goods were incentives.)

(Pueblo cooperated to build and maintain irrigation systems because, with irrigation, they could increase their food supply. Increased food was an incentive.)

**D. PEOPLE CREATE ECONOMIC SYSTEMS THAT INFLUENCE INDIVIDUAL CHOICES AND INCENTIVES.**

(Choctaw families followed economic rules. They were allowed to own farmland only as long as they used it; or, Choctaw were expected to give gifts to other villagers and to the chief.)

(Iroquois rules allowed men to hunt, fish, and make war, while the women raised crops.)

(Pueblo economic rules required men to raise crops and weave cloth, while the women ground corn, baked bread and made pottery.)

**E. PEOPLE GAIN WHEN THEY TRADE VOLUNTARILY.**

(Choctaw traded their corn for salt, shells, buffalo meat, and hide. Their trading partners benefited because they could not produce corn as cheaply. Both sides were better off in that they obtained products through trade which would otherwise have been more expensive to produce themselves.)

(Iroquois traded only when warfare was impractical. They benefited greatly when they took beaver skins or trade goods by violence, but the cost was high in lives lost.)

(Pueblo improved their standard of living when they spent most of their time farming, maintaining irrigation systems, and trading with nomadic people for meat and skin.)

**F. PEOPLE'S CHOICES HAVE CONSEQUENCES THAT LIE IN THE FUTURE.**

(Choctaw chose to farm and became prosperous later as a result.)

(Iroquois seldom chose to trade. Instead, they relied on warfare to acquire wealth.)

(Pueblo chose to cooperate in building irrigation systems and prospered in an inhospitable climate.)

## CLOSURE

Review with the class the idea that Native American groups, like other people, had to make economic decisions. Their behavior was different in specifics from that of Europeans, but in general, like the behavior of Europeans, it involved choices undertaken within systems of incentives to increase benefits and decrease costs.

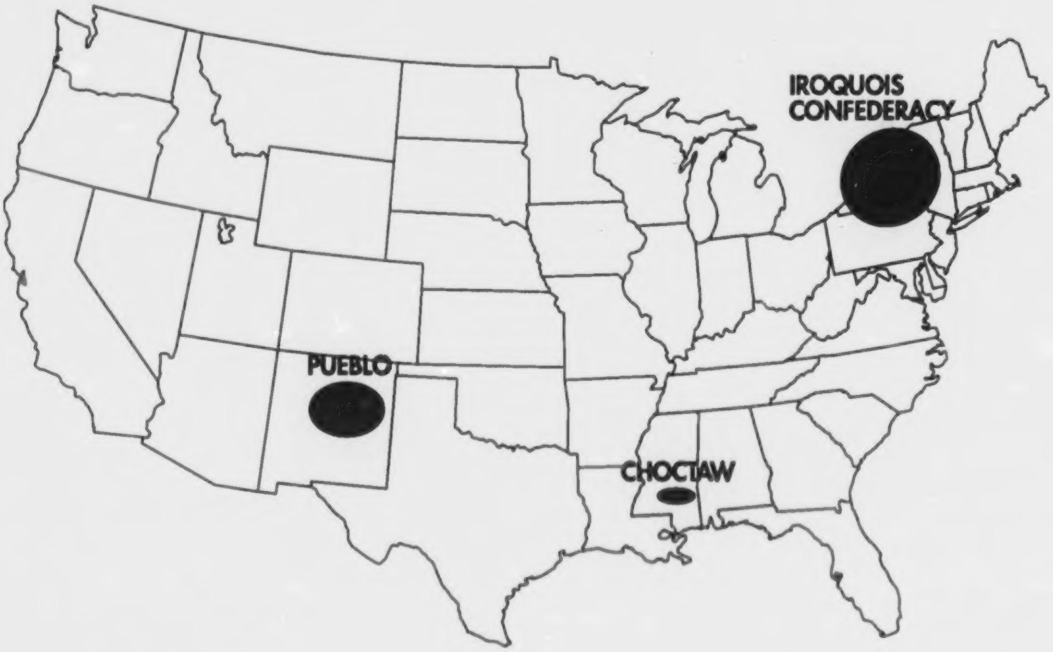
# VISUAL 1
# *HANDY DANDY GUIDE (HDG)*

1. People choose.
2. People's choices involve costs.
3. People respond to incentives in predictable ways.
4. People create economic systems that influence individual choices and incentives.
5. People gain when they trade voluntarily.
6. People's choices have consequences that lie in the future.

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

## VISUAL 2

# MAP SHOWING LOCATION OF PUEBLO, IROQUOIS, AND CHOCTAW PEOPLE


IROQUOIS CONFEDERACY
PUEBLO
CHOCTAW

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

Name____________________

# ACTIVITY 1
# THE CHOCTAW

THE CHOCTAW PEOPLE LIVED IN WHAT IS today Mississippi, western Alabama, and eastern Louisiana, in villages of wood and clay houses surrounded by farmland. When Spanish explorer Hernando De Soto first made contact with the Choctaw in 1540, Choctaw villages were grouped into three geographical divisions, located along the three major rivers in the area. Each village was governed by a village chief and a council of elders; each division was governed by a district chief (*mingo*) elected by all the men in the division.

Choctaw farmers raised corn, beans, squash, melons, sweet potatoes, and several other crops. Their farm tools included hoes, axes, shovels, and spades; these were similar to the tools of European farmers of the time, except that they were made of wood, flint or bone, since the Choctaw had no metal available to them. Each field was considered to be owned by an individual family, which received all the crops raised on it, but if a field was abandoned it reverted back to the tribe. Corn and beans were raised together in the same field, which maintained the fertility of the soil; growing corn removes nitrogen from the soil, but beans replace it.

Among the villagers, a system of barter existed, but it took the form of mutual gift-giving. A person who was especially skilled in making tools, for example, would give a tool to another villager, and would at some time in the future receive a gift of equal value. Gifts of food were given to the chief, who in turn gave these items to people in need or used them in feasts to honor visitors or the families of men away on hunting or war parties.

Choctaw farmers usually raised a surplus of corn, which they traded with other Native Americans of the Southeast, such as the Chickasaw and the Alabama. Trade with groups to the east brought the Choctaw salt, dried fish, and seashells. In the eighteenth century, Choctaw traders traveled as far north as the Wabash River (in present-day Indiana) and as far west as the Great Plains and the Staked Plains (now the Texas Panhandle). By that time the forest buffalo, once common in the Southeast, was gone, so the Choctaw traded with people in the Great Plains, exchanging excess corn for buffalo skins. They also traded with northern groups of Native Americans for beaver and muskrat, which they could exchange with French and Spanish trappers on the southern Mississippi for metal tools and cooking vessels, rifles, and cotton cloth.

## QUESTION FOR DISCUSSION

How did the behavior of the Choctaw follow economic principles?

Name________________________

# ACTIVITY 2
# THE IROQUOIS

THE TERM "IROQUOIS" DOES NOT REFER to a single group. In the region that is today the northeastern United States and southeastern Canada, most of the largest Native American groups spoke some version of the Iroquoian language. After Europeans began to trade in this area, five major groups in what is today upper New York State formed the League of the Iroquois, a confederacy of the Mohawk, Oneida, Onondaga, Seneca, and Cayuga peoples.

The Iroquois lived by farming, fishing, hunting and gathering. The men used fire to clear fields from the heavily forested lands typical of the region. The women raised the "three sisters"—corn, beans, and squash—that were the most important crops among most North American groups that practiced agriculture. Every six to twelve years, when the soil they farmed was worn out, Iroquois from a given village would move to a new location. In the spring, family groups would move temporarily to lakes or streams and would return to their villages with fresh and dried fish. After harvest, hunting parties traveled deep into the woods in search of deer, bear, and small mammals, returning in early winter with fresh and preserved meat.

The Iroquois lived in "longhouses," large wooden structures partitioned into several apartments occupied by related families. Women owned the longhouses. When a man married, he went to live in the longhouse of his wife.

Iroquois men traveled long distances to hunt or to make war, but they traded very little with other Native American peoples. By the early 17th century, French, Dutch, and English traders were exchanging such valuable goods as weapons and metal tools with the Huron, Ottawa, and other groups, in exchange for beaver pelts. The Iroquois, blocked by these groups from trading directly with the Europeans, attacked them more and more frequently to obtain European trade goods or to drive them out of areas where beaver were abundant. By 1675, the Iroquois had destroyed or driven out most other Native Americans who had competed with them for beaver.

The continual warfare of the Iroquois killed many young Iroquois men. To compensate for this, victorious Iroquois warriors often adopted their prisoners rather than killing them. The influence of women in managing Iroquois villages grew because of the reduced number of young men and the frequent, long absences of war parties.

## QUESTION FOR DISCUSSION

How did the behavior of the Iroquois follow economic principles?

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

**Name**____________________

# ACTIVITY 3
# THE PUEBLO

WHEN SPANISH EXPLORERS FIRST ENTERED what is today north central New Mexico, early in the 16th century, they found villages made up of large adobe (clay brick) apartment buildings two or three stories high. Many of these villages, called *pueblos* by the Spaniards,-are still occupied by descendants of the people who lived there when the Spanish arrived.

The Pueblo raised corn, beans, and squash, as did other agricultural groups throughout North America. They also grew cotton and kept flocks of turkeys. In the semi-desert area in which the pueblos were located, crops could not have survived without irrigation. In each pueblo, the whole community labored to build and maintain the irrigation systems upon which their livelihood depended. Perhaps this necessary task influenced the beliefs of the Pueblo—for example, that individuals should not compete to outperform their neighbors, or that members of the community should cooperate with each other for the common good and follow traditional ways.

Each pueblo was politically separate from the others. Land was considered to be owned by the community, but usually was kept by the same family for many generations. In some pueblos, inheritance was through the families of wives, but in others it was through the husband's family. In contrast to the practice of agricultural people of the northeast and southeast, Pueblo men cultivated the fields. Men of some pueblos hunted, but hunting was not as important to the Pueblo way of life as it was to most other Native American peoples. Until recent times, only men were the Pueblo weavers. Women ground corn, baked bread, and made pottery. Much time was taken up with elaborate religious ceremonies and dances.

Trade was carried on among pueblos, and people living in pueblos traded with other groups living near them. The people of Acoma and Pecos exchanged cornmeal with the Apache for deer, rabbit, and tanned deerskin. Taos, the most northern of the pueblos, traded with the Plains people and hunted buffalo as the Plains people did. As Native Americans throughout the Southwest acquired horses, trade increased, but the pueblos also suffered from raids by nomadic peoples such as the Navajo and the Comanche.

Spanish colonization after 1598 introduced new crops to the Pueblo, as well as pigs, sheep, horses, and cattle. However, Spanish colonists also took over much of the land that the Pueblo had farmed. Today, many Pueblo still farm as their ancestors did, but others leave the pueblo every day to work in nearby towns and cities. Most Pueblo still live in the homes built by their ancestors and follow many of the old customs and ceremonies that existed hundreds of years before the Spaniards arrived.

## QUESTION FOR DISCUSSION

How did the behavior of the Pueblo follow economic principles?

# DID NATIVE AMERICANS ACT ECONOMICALLY?

***History*** The economic life of Native American people varied from place to place across the continent. The Shoshone, Pima, and Nez Perce gathered seeds, nuts, and berries and specialized in basket-making. The Choctaw raised corn, beans, and squash. Plains Indians after the arrival of the Spanish based much of their culture on horses.

***Mystery*** Some behavior of Native Americans may appear puzzling. Why, for example, would Native Americans, long associated with wampum as a medium of trade, allow whites to take over its manufacture? Why would people of the Plains leave their crops and permanent villages to become nomads?

***Economic History*** In particular detail, economic activity varies from place to place and time to time. Underlying this variety, however, there are common patterns. These patterns derive from the universal need of people to make choices in response to problems caused by scarcity. Northeastern Indians found that time spent producing wampum could more profitably be used trapping beaver. By basing their culture on horses, people of the Plains raised their standard of living.

## CONCEPTS

Specialization and Exchange
Economic Systems
Medium of Exchange
Markets
Productivity

## OBJECTIVE

♦ Use principles in the *Handy Dandy Guide (HDG)* to analyze the economic choices of two Native American groups in the past.

## LESSON DESCRIPTION

This lesson gives two examples of puzzling behavior that can be explained by applying economic reasoning to the historical situation.

## TIME REQUIRED

♦ One class period

## MATERIALS

One copy for each student of Activities 1 and 2.

## PROCEDURE

1. Explain to the class that the purpose of this lesson is to solve economic mysteries involving three Native American groups. Distribute copies of Activities 1 and 2. Explain to the students that Activity 1 gives two examples of economic mysteries that can be explained by applying the principles of economic reasoning presented in Activity 2.

2. Read Mystery 1 on Activity 1 to the class. Encourage the students to speculate on why Native Americans would find that they are better off trading with whites for wampum rather than making it themselves.

3. Explain the wampum mystery using *HDG* principles 1, 2, 3, and 5. European contact with the northeastern Native Americans led to a thriving market for furs, particularly beaver skins, for export to buyers in Europe. Native Americans found that they could "produce," by trapping, and trade furs for European goods, such as iron tools and weapons. The time they had spent previously producing wampum could more profitably be spent trapping beaver and other fur-bearing animals.

At the same time, since trading activities greatly increased with European contact, demand for wampum increased throughout the Northeast. A rule of the economic system was that wampum was used by Native Americans and whites as money to mediate exchange. It was universally accepted in exchange for goods and services. The New England colonists used wampum in making exchanges among themselves as well as in trading with Native Americans. The increased demand for wampum encouraged poor white families, particularly housewives, to begin making wampum on a part-time basis.

The Campbell family used better tools than those that were available to the Native Americans. Through practice, the Campbells were able to produce many uniform wampum beads in a short period of time. Their location near the ocean also allowed them ready access to shells. They established the custom of offering outdoor clam feasts at which neighbors ate without charge as long as they were careful not to break the clamshells, which the Campbells then used. The Campbell family business continued to thrive until the Native Americans in their vicinity were removed to reservations in the last decades of the 19th century.

4. Next, ask the students to read Mystery 2. Ask them to speculate about which *HDG* principles might explain why the Sioux, Cheyenne, Crow and Arapaho people changed from farming to a nomadic life.

5. Remind students that people respond to incentives (*HDG* principle 3). Using horses, Plains Indians were able to improve their standard of living. They could follow migrating buffalo herds rather than wait for the herds to pass near their settlements. They could chase individual buffalo and easily bring them down with bow and arrow. The increased number of buffalo slain provided skins that could be used as a better covering for teepees than the brush, bark or deerskin previously used. As the Plains Indians became more mobile, they made increasing use of lightweight leather jars and cooking vessels to replace pottery.

They also reduced their costs of travel in time and effort. Horses could drag heavier loads over greater distances than dogs could. Because horses provided greater carrying capacity, teepees could now be made larger, with more room for the people who lived in them and for storage of food and possessions. The Cheyenne, Crow, and Arapaho were much better off as nomads than they had been as farmers.

Other Plains people, such as the Mandan and Hidatsa, the Osage, the Wichita, and the Caddo, continued to farm, but they also raised their living standards because the horse allowed them to hunt with greater efficiency. Since women did most agricultural labor, the amount of meat available to the group could be increased without a sacrifice of agricultural products. And for the Comanche, Kiowa, and Blackfoot, who had never farmed, the horse accounted for the difference between frequent periods of hunger, or even starvation, and a reliable and abundant food supply.

## CLOSURE

This lesson stresses the point that people who differ from one another culturally will nonetheless face a common problem of scarcity. In responding to the problem of scarcity, people from all cultures make economic choices, seeking an advantageous blend of costs and benefits. The early history of Native Americans in what is now the United States may be described and explained in part as a record of economic choices. In this respect, the histories of Native Americans and European settlers converge.

Name____________________

# ACTIVITY 1
# DID IT MAKE SENSE?

***Sometimes people do things that don't seem to make sense, yet their behavior may turn out to be rational when you know the full story. Below are two examples. By using principles from the*** **Handy Dandy Guide,** ***you may be able to figure out the explanations.***

## MYSTERY 1

Wampum was a bead made out of seashells. It was used as money by the Native Americans of the Northeast and by their European and American trading partners. The Iroquois claimed to have invented wampum and they valued it highly. Yet by the time of the American Revolution, most wampum was being made not by Native Americans but by a factory in Park Ridge, New Jersey, owned and operated by a white family, the Campbells. Native Americans who wanted wampum to use in trade generally purchased it from the Campbells. Why would Native Americans, people long associated with wampum, allow whites to take over the manufacture of wampum?

## MYSTERY 2

History refers to the Cherokee, Choctaw, Chickasaw, Creek, and Seminole people as the "Five Civilized Tribes" because they lived in permanent homes and raised crops and livestock. Yet many native people of the Great Plains, including the Sioux, Cheyenne, Crow, and Arapaho, who moved from place to place in pursuit of the buffalo, had once been farmers. Why did these Great Plains Native Americans leave their crops and permanent villages to become nomads?

Name_______________________

## ACTIVITY 2

## *HANDY DANDY GUIDE (HDG)*

1. People choose.
2. People's choices involve costs.
3. People respond to incentives in predictable ways.
4. People create economic systems that influence individual choices and incentives.
5. People gain when they trade voluntarily.
6. People's choices have consequences that lie in the future.

# SAMPLE TEST ITEMS

## LESSON 1

1. The opportunity cost of making a choice is what is given up. Pueblo chose to spend most of their time raising crops and keeping their irrigation systems operating properly. One possible opportunity cost of this choice was

A. Corn, beans, and squash.
B. Labor.
✓C. Meat they could have obtained by hunting.
D. None of these.

2. Among many Native American groups, including the Choctaw, farmland belonged to a family only as long as the family used it to raise crops. Land that was allowed to lie idle reverted back to the ownership of the village or group. Why do you think this custom was so widespread among Native American peoples?

A There was no reason for this custom; it was just the way Native Americans had always done things.
✓B. The custom provided an incentive to prevent a resource (land) from being wasted.
C. Native Americans placed a low value on agricultural products.
D. The custom was a disincentive to discourage using land for agriculture.

3. People usually gain a higher standard of living when they specialize in producing some goods and trading them for other goods. The Choctaw

✓A. Specialized in raising corn and traded for buffalo meat and hide.
B. Specialized in fishing and traded for tools and cloth.
C. Specialized in trapping beaver and traded for corn, beans, and squash.
D. Specialized in nothing.

4. People make choices by considering the costs and benefits of each alternative and then choosing the alternative that provides the best combination of costs and benefits. Read the following paragraphs, tell what the benefits and costs of each alternative were, and decide which alternative you would have chosen if you had been a Choctaw in the 1820s.

In the early 1800s, more and more white settlers moved into the southeastern lands where the Cherokee, Choctaw, Chickasaw, and Creek peoples lived. These settlers began to demand the removal of all Native Americans to the lands west of the Mississippi River. The state of Mississippi abolished all Native American government within its borders, and state law enforcement officers did very little to protect Native Americans from violence and fraud.

In 1830, the principal chiefs of the Mississippi Choctaw signed the Treaty of Dancing Rabbit Creek, in which they ceded all Choctaw land in Mississippi to the United States in return for a large territory in what is today southeastern Oklahoma. In return, the United States was willing to pay the costs of moving and subsistence for one year after the Choctaw' arrival. However, individual Choctaw might also decide to stay in Mississippi; they were promised an individual allotment of land and United States citizenship.

A Choctaw exploring party reported that the territory they had been granted had abundant game, fertile valleys, excellent timber, and extensive pasture land. However, there was also some danger from other Native American groups nearby. The first Choctaw parties heading toward the new territory were poorly prepared and were hit by a terrible blizzard. Many travelers died, as did those in a later party that went in summer and suffered from a cholera outbreak. Meanwhile, the state of Mississippi neglected to enforce the law in the Choctaw areas, and conditions grew steadily worse.

If you had been a Choctaw in the mid–1830s, would you have stayed in Mississippi or moved to the new Choctaw nation? List the costs and benefits of each alternative and then tell which alternative you would have chosen.

*Possible Answer:* The benefits of staying in Mississippi included remaining in a familiar place and making a living in the same way as you always had; the costs were living in a place where the white citizens and the government were hostile. The benefit of moving to the new Choctaw nation was escaping white harassment; the costs were the dangers of the trip and the unfamiliarity and possible hazards of the new land.

## LESSON 2

1. After whites began producing wampum, the Iroquois stopped making their own because

A. They didn't need it for trade any more.
✓B. They could get more wampum if they specialized in trapping beaver and trading beaver pelts for it.
C. They realized that wampum had no real value.
D. None of these.

2. Plains people including the Cheyenne, Crow, and Arapaho greatly raised their standard of living when they

✓A. Acquired horses.
B. Switched from being nomads to being settled farmers.
C. Began to use wampum.
D. Fertilized crops.

## UNIT THREE: OVERVIEW

# EXPLORATION AND SETTLEMENT

UNIT 3 ADDRESSES THE PROBLEM OF why some economies grow and others do not. The English brought a set of institutions—rules for the economic system—which enabled the colonies in North America to prosper, whereas the economies that developed within institutions brought by the Spanish were less successful. Among the economic rules brought by the English, the idea of private property rights—well-defined and enforced—was of key importance.

Lesson 1 asks the students to examine an economic mystery about why some economies grow while others do not. Using economic reasoning, students analyze private property rights as an economic incentive, how investment can increase future economic production, and how trade with other nations can make people better off.

Lesson 2 involves students in a role-playing activity in which they plan an economy for a new planet. In doing their planning, they make use of certain information about the economic development of Central and South America by the Spanish, and of North America by the English. Their planning also is guided by *Handy Dandy Guide (HDG)* principles that stress the importance of the rules within which economic systems operate.

## UNIT THREE: LESSON ONE

# WHY DO ECONOMIES GROW?

## INTRODUCTION

***History*** Throughout history, some nations have grown economically while others have not. Historians point to many possible explanations, including the presence of natural resources, population size, and trade.

***Mystery*** Some nations have vast natural resources and are very poor. Other nations have almost no natural resources and are very wealthy. Why?

***Economic History*** Economists place little emphasis on the importance of natural resources in explaining economic growth. Instead, they stress the role of incentives on behavior. Nations establish rules which govern economic choices and incentives. Economies can grow when these rules reward productive behavior and decline when they do not.

## CONCEPTS

Growth
Private Property Rights
Investment
Physical Capital
Human Capital
Infrastructure
Gross Domestic Product

## OBJECTIVES

- ♦ Discuss the relationship between economic growth and natural resources.
- ♦ Explain how key factors, including private property rights, capital, and investment are associated with economic growth.

## LESSON DESCRIPTION

Students examine a series of visuals and discuss factors associated with economic growth.

## TIME REQUIRED

- ♦ One class period.

## MATERIALS

One transparency each of Visuals 1 and 2.
One copy for each student of Activity 1.

## PROCEDURE

1. Tell the class that the purpose of this lesson is to use economic reasoning to examine why it is that some economies in the past have grown while others have not.

2. Remind the class that we all know that the United States eventually developed a wealthy economy. But it did not necessarily have to turn out that way. Other nations have had many of the advantages of the United States but still have failed to grow economically. *Growth* here refers to increasing production per person. What is it about the American past that enabled it to grow economically?

3. Explain that one common explanation of the economic growth of the United States stresses its rich endowment of natural resources, including abundant land, rich minerals, and a climate conducive to production in agriculture.

4. *Ask:* Do you think that a wealthy nation must have abundant natural resources? (Accept a variety of responses.)

5. Display the economic mystery on Visual 1 to the class. Ask the class to predict which of these countries has the highest income. Invite the students to speculate about the identities of countries A, B, and C. Ask them to explain their choices.

6. Display Visual 2. Explain that Gross Domestic Product (GDP) refers to the total value of the final goods and services produced within a nation's borders.

7. The students may be somewhat surprised that nations such as Brazil and Russia, which have rich endowments of resources, do not have high income economies. In contrast, Japan, a nation nearly without natural resources, has very high income. Explain that while natural resources can help an economy to prosper, other factors are more important.

8. Distribute Activity 1 to the class. Review the definition and explanation of economic growth. Discuss the information about private property rights, physical capital, human capital, investment, and infrastructure. Discuss the question posed after each section. *Ask:*

A. Would you keep a savings account or wish to own a farm in a nation that expropriated savings and farmland every few years? (Probably not. You would be encouraged to spend income immediately or to move it out of the country. Knowing that your farmland could be taken away from you at any time would reduce your incentive to care for the land and make it productive over time.)

B. What incentives might encourage the development of physical capital? (Allowing individuals to keep any earnings from investing in physical capital is a strong inducement. National and state governments often provide tax incentives to encourage investment in physical capital.)

C. What incentives could a nation provide to encourage the development of human capital? (Offering inexpensive education and job training is an inducement for people to invest in human capital. Tax advantages such as tax deductions of tuition payments can be an incentive.)

D. What incentives might encourage people to save and invest? (National and state governments often provide tax incentives to encourage saving and investment.)

E. In what way is infrastructure similar to investment? (Infrastructure is a way of using resources today as a means of improving production in the future.)

## CLOSURE

Review the idea that the importance of natural resources in relation to economic growth is often exaggerated. This lesson stresses the importance of other factors. Ask the students to summarize rules that are related to economic growth, including property rights, capital, and investment.

# VISUAL 1

# *ECONOMIC MYSTERY*
# WHO IS THE RICHEST?

***Predict which of the following nations would have the highest income.***

### COUNTRY A

| | |
|---|---|
| *History* | About 500 years |
| *Population* | 154 million people |
| *Minerals* | Chromium, iron, titanium, nickel, diamonds, gold, coal, tin, bauxite, and more |
| *Oil reserves* | 2.3 billion barrels |
| *Arable land* | Over 12 million square miles |

### COUNTRY B

| | |
|---|---|
| *History* | About 2,700 years |
| *Population* | 124 million people |
| *Minerals* | Negligible |
| *Oil reserves* | 26 million barrels |
| *Arable land* | 19,000 square mile |

### COUNTRY C

| | |
|---|---|
| *History* | About 1,200 years |
| *Population* | 148 million people |
| *Minerals* | Coal, bauxite, chromium, copper, gold, nickel, zinc, uranium and more |
| *Oil reserves* | 60 billion barrels |
| *Arable land* | 670,000 square miles |

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

# VISUAL 2

# WHO HAS THE HIGHEST INCOME? GROSS DOMESTIC PRODUCT (GDP) 1990

## (IN BILLIONS OF DOLLARS)

| | |
|---|---|
| **COUNTRY A** | |
| Brazil | $ 374 |
| **COUNTRY B** | |
| Japan | 2,929 |
| **COUNTRY C** | |
| Russia | 716(est.) |

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

Name________________________

# ACTIVITY 1
# FACTORS ASSOCIATED WITH ECONOMIC GROWTH

***Directions: Read the information in each section. Discuss the questions with your class.***

## ECONOMIC GROWTH

***Definition*** Economic growth is an increase in an economy's output per person.

***Explanation*** Encouraging economic growth is a way of increasing prosperity on a continuous basis. It provides the means to reduce such problems as poverty and damage to the environment.

## PRIVATE PROPERTY RIGHTS

***Definition*** Individuals are allowed to own property and to retain the benefits of property for their personal use.

***Explanation*** Well-defined and government-protected private property rights are powerful incentives that encourage people to be productive. Some economic historians claim that the development of private property rights in Western Europe is what allowed Western Europe to grow economically during the Renaissance after centuries of stagnation.

***Question*** Would you keep a savings account or wish to own a farm in a nation that expropriated savings and farmland every few years? Why or why not?

## PHYSICAL CAPITAL

***Definition*** Physical capital refers to human-made items used to produce and distribute goods and services. Some examples are machines and transportation equipment.

***Explanation*** Incentives that encourage the development of new technologies for production are vital to help an economy grow.

***Question*** What incentives might encourage the development of physical capital?

## HUMAN CAPITAL

***Definition*** Human capital refers to skills, knowledge, and experience that enable people to be productive and earn income.

***Explanation*** Encouraging people to acquire knowledge and skills through education and job training will lead to a more productive economy.

***Question*** What incentives could a nation provide to encourage the development of human capital?

## INVESTMENT

***Definition*** Investment is using resources today in such a way that they will allow for greater production in the future. When a business buys new equipment or builds a new factory, it is investing.

***Explanation*** Saving and investment are connected. When people choose to save, they delay consumption. What they save can be invested by themselves or others. If people have an incentive to invest, this increases a nation's future ability to produce and consume.

***Question*** What incentives might encourage people to save and invest?

## INFRASTRUCTURE

***Definition*** Infrastructure is an economy's transportation system, communication system, financial system, and educational system.

***Explanation*** Infrastructure reduces the costs of commerce and thus encourages voluntary trade.

***Question*** In what way is infrastructure similar to investment?

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

# BE A PLANET PLANNER

## INTRODUCTION

***History*** The first Europeans to settle in America were the Spanish. Their American empire lasted for 300 years. The English arrived over 100 years after the Spanish and settled a strip of land on the eastern coast of North America.

***Mystery*** The Spanish and the English had much in common. Both were powerful European colonial powers. But the paths of colonial economic development followed by Spain and England led to different outcomes. Why?

***Economic History*** This lesson stresses two key principles of economic behavior: people respond to incentives in predictable ways; and economic systems influence individuals' choices and behavior. By using these assumptions we are able to draw distinctions between Spanish and English development of South and North America respectively. By the time of the arrival of the first English colonists, England, through establishing the beginnings of parliamentary government, had taken steps toward the development and protection of private property rights. In comparison, the monarchy of Spain had taken few steps in this direction. While many reasons explain the disparate results of the Spanish and English development of South and North America, contrasting economic rules appear to have played an important role.

## CONCEPTS

Economic freedom
Private property
Incentives

## OBJECTIVES

♦ Recognize how the economic rules established by the Spanish and English in the Americas encouraged differing approaches to development.

♦ Analyze past, present, and future instances of economic development in the light of economic reasoning.

## LESSON DESCRIPTION

In this role-playing activity, students work in groups to recommend economic development policies for a newly discovered planet.

## TIME REQUIRED

♦ One or two class periods

## MATERIALS

One copy for each student of Activities 1 and 2.

## PROCEDURE

1. Tell the class that in this lesson they will participate in a "back to the future" activity, examining the development of economies in North and South America in the 1500s and 1600s to help them decide what to do in the year 2033.

2. Distribute Activity 1 to the class. Allow the students to read and discuss the fictional newspaper article in Part I. Next, ask the students to read Part II. Review the two rules the Task Force will use to make recommendations and the jobs the groups are to perform. *Ask:*

   A. What is an example of an incentive? (While incentives may be nonmonetary, many involve monetary rewards, payment for work, for example.)

   B. What is an example of a rule in our economic system? (Examples of rules in our economy are that people are allowed to own and run their own businesses; the government may not arbitrarily take away property owned by individuals; people make their own decisions about careers they want to pursue and where to live.)

3. Divide the class into small groups. Each group is to take the role of a Task Force. Ask each group to appoint a reporter who will report later.

4. Distribute Activity 2 to the groups. Explain that it is a research report that will help them understand what some prominent economic historians believe to

be important differences between English and Spanish settlement of North and South America. Ask the groups to complete the discussion questions in Activity 2 and to develop their policy recommendations.

5. Lead a discussion of Spanish and English development. *Ask:*

A. How did political institutions differ between Spain and England? (Spain had an absolute monarchy. Individual economic rights were not as well developed or protected. England had moved toward a parliamentary form of government which had encouraged more individual economic freedom.)

B. Describe ways in which Spain influenced the economic development of South and Central America. (Spain took gold from the land and from the people. The local economy was controlled by Spaniards, who replaced the local leadership.)

C. Describe ways in which England developed the eastern coast of North America. (The English had a stronger tradition of private property rights. Agriculture became an important feature of English settlement.)

6. Ask leaders from each Task Force to present the policies they recommend for the economic development of Z93. Encourage students, in their explanations, to apply the rules: (1) people respond to incentives in predictable ways; (2) people create economic systems that influence incentives and choices.

## CLOSURE

Tell the class that many countries in Asia, Eastern Europe, South America, and Africa still have not developed strong economies. Point out that while many obstacles exist, this lesson has stressed that governments can set up rules to encourage economic development. *Ask:*

A. How might private land ownership in Cuba encourage economic development? (Individuals who own land will find ways to make it productive if they can benefit from any profits they make. Individuals, however, need to be secure in the knowledge that the government will protect their property.)

B. Suppose the U.S. Congress decided to reduce the federal deficit by randomly selecting people whose savings would be confiscated and put into the Treasury. How might this policy affect economic development? (It would discourage saving, as some people would choose to spend their money rather than risk losing it. Decreased saving would mean that less money would be available for investment. If investment decreased, growth would decrease as well.)

Name________________________

# ACTIVITY 1
# BE A PLANET PLANNER

## PART I

The following is a news item from *USA Today*, October 17, 2032, Brussels, Belgium.

### UNIDA TO DEVELOP NEW PLANET Z93

Dr. Julie Verne, head of the United Nations Intergalactic Development Administration (UNIDA) is near reaching a final decision on how to develop the newly discovered planet called Z93. Preliminary UNIDA studies show that the planet has an atmosphere much like the earth's. However, its vast potential for economic development is unknown. Dr. Julie Verne has commissioned a Task Force to write a recommendation to guide her decision. She has advised the group to use studies from history and economics for help.

## PART II

Welcome to the UNIDA Task Force.

You have just been appointed by Dr. Julie Verne to the UNIDA Task Force to study the development of Z93. The purpose of the Task Force is to give advice to Dr. Verne and the United Nations on how best to develop planet Z93.

Past Task Forces have been guided by two rules:

1. People respond to incentives in predictable ways. Rewarding people for their work, for example, encourages them to be productive.

2. People create economic systems that influence individual choices and incentives. In order for an economy to grow, its rules must include a system of incentives that encourages people to produce.

## YOUR JOB

Read the staff reports which follow about how economies have developed historically. Discuss the questions which follow the reports. Finally, write your recommendations for the development of Z93 and share them with your class. Good Luck! The future is in your hands.

**Name**____________________

# ACTIVITY 2
# RESEARCH STAFF REPORT

**MEMORANDUM**

**To: Members of the UNIDA Task Force**
**From: Research Staff, UNIDA Economic History Division**
**Date: October 17, 2033**

We have investigated how North and South America were developed by the Europeans in the 1500s and 1600s. While these actions took place many years before Europe became united and long before the technological advances of the 19th and 20th centuries, we think that we can learn from the different approaches followed by Spain and England.

## SPANISH DEVELOPMENT

We have reviewed some of the studies done by prominent economic historians of the past, such as Douglass North of Washington University. This research suggests that the economic rules of Spain were different from those of England. These differences influenced the economic policies each followed, and may have led to different economic results.

In the 16th century Spain was an absolute monarchy. Royal power was not shared with a parliament. Private property rights were not as well developed or as secure in Spain as they were in England. For example, private land ownership was just becoming established. Moreover, many economic decisions were not made by individuals. Many goods and services were produced by guilds (organizations of merchants or craftsmen) that operated as monopolies.

The Spanish plan for development might best be described as the use of power to gain sudden wealth. Gold was the treasure Spaniards sought. The experience of Columbus illustrates some of the notions held by the Spanish. Beginning with his second voyage, Columbus tried to establish a central outpost at Hispaniola. He failed because the Spanish settlers spent their time searching for gold or plundering the nearby Arwark Indians.

The first Spanish arrivals were the Conquistadores. While some Spanish craftsmen and farmers also came to live and work in the new world, many Spanish in the Americas were interested solely in gaining quick wealth and returning to Spain.

The conquest of South and Central America was similar to the conquest of the islands in the Caribbean. The Spanish conquered the sophisticated civilizations of the Aztecs, Incas, and the Chibchas. These South and Central American societies had much more gold than did the societies of the Caribbean. The Spanish quickly seized it. And, almost overnight, they started mining to find still more. The Spanish also sought to control the economy, first by destroying the top leadership of the Aztecs, Incas, and the Chibchas, and then by gaining control over the production of cattle, tobacco, and cotton.

Spain's decision to seek gold and other riches resulted in little expansion of goods and services produced in the Americas. Instead, Spanish policy encouraged a transfer of existing wealth from one place (the Americas) to another (Spain).

## ENGLISH DEVELOPMENT

The coastal strip of North America colonized by the English presented a set of problems different from those encountered by the Spanish. Vast civilizations like the Aztecs and Incas were not present. Nor did the English find gold or other obvious, recognized sources of wealth. The timber, furs, and fish of the North American coast appeared at first as pale imitations of the riches garnered by the Spanish. Moreover, systems for transporting goods had not been developed. No one yet knew, for example, how to process fish for the trip across the Atlantic.

Like the Spanish, the English brought their own set of economic rules. By the 17th century, English kings had been forced to give up some of their power to Parliament. In so doing, they turned over to individuals as private property a larger share of the economy, and English law began to develop well-defined and protected rights for owners of private property. This evolving system of property rights encouraged people to be productive, to specialize, and to trade.

The settlers attracted to the English colonies were different from the Spanish Conquistadores. While many came to New England to escape religious and political persecution, many more came because of economic opportunities. They responded quickly to economic incentives such as the prospect of high income to be earned by work and production.

Ownership of private property, especially of land, developed very quickly in the early English settlements. The Pilgrims, for example, who experimented with common ownership of land, soon learned that it was a failure. In 1623, they replaced, in part, group ownership of land with individual ownership. "This had very good success," William Bradford reported, "for it made all hands very industrious, so as much more corn was planted than otherwise would have been by any means the Governor or any other could use" (*Of Plymouth Plantation, 1620–1647* [New York: Random House, 1981], pp. 132–133).

Individual ownership of land was an important condition for economic growth. The Pilgrims, for example, had expected to make a profit from fishing. After experimentation, they found that a more successful living could be made in agriculture and trade. This conclusion was not reached by following some prior plan. Rather, it evolved as individuals used property in the way they thought would bring the most profit for them and their families.

## QUESTIONS FOR DISCUSSION

1. What were the differences in the economic rules established by the Spanish and the English?

2. Describe ways in which Spain developed South and Central America.

3. Describe ways in which the English developed the eastern coast of North America.

## POLICY RECOMMENDATIONS

Remember the two rules to assist you in making your recommendations: (1) people respond to incentives in predictable ways, and (2) people create economic systems that influence choices and incentives. Describe the policies you think should be followed to develop the resources of planet Z93. What economic rules should be established? You may wish to use the questions that follow as a guide to develop your policies.

1. Who should be allowed to own property on Z93? Individuals? Government? Why?

2. How should people obtain property on Z93? Should property be free? Should people pay the market price? Why?

3. How should people be rewarded for developing resources? Why?

# SAMPLE TEST ITEMS

## LESSON 1

Economic reasoning suggests that the chances for a nation to grow economically are substantially improved when:

A. The nation has vast natural resources.
✓B. The rules of the economic system reward productive behavior.
C. The nation is located north of the equator.
D. The rules of the economic system reward random behavior.

## LESSON 2

1. Spanish development of Central and South America can be characterized as:

✓A. Using power to gain sudden wealth.
B. Gaining voluntary cooperation of native groups.
C. Establishing rules to expand production of additional goods and services.
D. Allowing free trade to operate.

2. English settlements on the eastern coast of North America became relatively prosperous, in part because of:

A. Advanced planning by government officials.
B. Unexpected discoveries of gold and silver.
✓C. Establishment of private property rights.
D. A series of unlucky events.

3. You are serving on a special panel to give advice to a newly independent nation on how to achieve economic growth. Using economic reasoning, what ideas would you stress?

*Possible Answer:* People respond to incentives in predictable ways and economic systems influence the individuals' choices and incentives. The rules of the economic system should be designed to reward productive behavior. Economic development is encouraged when a large share of the economy is given to individuals in the form of private, well protected property rights.

## UNIT FOUR: OVERVIEW

# THE ROAD TO REVOLUTION

UNIT 4 TRACES THE DEVELOPMENT of the colonial economy under British rule until the Revolution. Certain economic institutions helped the colonial economy to grow. However, the colonists became dissatisfied with their economic situation. Why did they come to believe that the benefits of independence were worth the cost of a war?

To contemporaries, it was not clear how the colonial economy would develop. Lesson 1 provides students with an overview of that economy. Students examine statistics about the colonial economy to explore the effect of trade with Europe on economic growth. They also review private ownership of property as a factor that encouraged colonists to experiment with producing goods for export to Europe.

Lesson 2 involves students in solving an economic mystery pertaining to the American Revolution. Many colonists became prosperous under British rule. If this was the case, why would the colonists wish to fight a war to gain independence? Students examine the anticipated costs and benefits of remaining in the British empire.

Lesson 3 is a Wealth Creator case study. In this case, students examine the life of Eliza Pinckney, who contributed to the economic development of South Carolina through the introduction of indigo.

# UNDERSTANDING THE COLONIAL ECONOMY

## INTRODUCTION

***History*** Ignoring the fact that the land was already occupied by Native American groups, English colonists came to settle on the Atlantic seaboard. The beginning was not easy. The first settlement of English colonies failed. Experiments with communal ownership of property were tried. They also failed.

***Mystery*** North America offered no known gold or silver for the taking. There were no spices to trade. North America was known only to offer land. No one was sure what could be produced on that land or who should produce it. Eventually, however, the colonies were able to prosper. Why?

***Economic History*** The question of what the English colonists should produce was answered by the establishment of a powerful economic incentive—private ownership of land. Rules establishing private land ownership encouraged individuals to experiment with various uses of their land and its resources in an effort to produce goods for trade at home and with European customers.

## CONCEPTS

Incentives
Trade
Market
Specialization
Choice

## OBJECTIVES

♦ Identify trade as an important source of growth of the colonial economy.

♦ Analyze private ownership of land as a key incentive.

♦ Identify ways in which colonial settlers were atypical people.

♦ Explain the relationship of specialization to increased production.

♦ Practice making choices in which individuals specialize and trade.

## LESSON DESCRIPTION

Students examine data on visuals to gain an overview of the colonial economy. Next, they read and discuss a handout to gain a fuller picture. The lesson concludes with several applications presented in an activity.

## TIME REQUIRED

♦ One class period

## MATERIALS

One transparency each of Visuals 1, 2, and 3.
One copy for each student of Activities 1 and 2.

## PROCEDURE

1. Tell the class that this lesson explores how the colonial economy developed. Many of the investors in the first colonies hoped that England, like Spain, would discover vast treasures. The failure of early efforts suggested that such riches were not present. Stress that no one at the time knew for sure what products could be successfully produced. That said, it was clear that Europeans represented a large potential market for whatever was produced. Ask why the North American colonists were able to prosper eventually.

2. Focus student attention on how the colonial economy grew by displaying Visuals 1, 2, and 3. Discuss the questions presented at the end of each Visual. Invite students to speculate on the patterns of colonial economic growth. Based on this information, the students should conclude that exports—especially tobacco—were very important to the colonial economy and that the fast pace of population growth suggested that many people in Europe responded to incentives to emigrate to the North American colonies.

3. Distribute Activity 1 to the class. Explain that Activity 1 gives a fuller picture of the colonial economy. Ask the students to use the discussion questions to guide their reading. After they read Activity 1, *ask:*

A. Why did the colonists need to discover what Europeans wanted? (The colonial population was relatively small. There were few potential customers. Europe, on the other hand, had many potential customers. The colonists had to discover what goods they could produce at competitive prices that Europeans wanted to purchase.)

B. Why was private land ownership a strong incentive to encourage individual production? (Owning land provided an opportunity for individuals to increase their incomes. By remaining in Europe, few peasants would ever have the opportunity to own their own land.)

C. In what ways were the people who were attracted to the colonies not typical? (People willing to migrate to North America took large personal risks. Moreover, they were willing to save, earn, or borrow money from other savers in order to pay the cost of making the trip.)

D. How did specialization lead to more production in the colonies? (Despite the fact that most people were engaged initially in self-sufficient farming, specialization and trade developed. Colonists specialized in producing goods favored by local conditions. Colonists traded these goods and used the income to purchase products they wanted. The Southern colonies specialized in tobacco. The Middle colonies specialized in grains. The New England colonies specialized in furs, forest products, fishing, whaling, and shipbuilding.)

## CLOSURE

Remind the students that many North American colonists sought to discover products that Europeans wanted to buy. They also had to discover which of these products they could produce for export at a competitive price. They specialized in producing goods which could be traded to earn income, and these goods, in turn, could be used to purchase products they wanted. Explain that the problem of deciding how to specialize and trade is one which all individuals face in many ways. Distribute Activity 2. Ask the students to explain how the person in each case is trying to decide how to specialize and trade.

A Sanguita Perez is about to graduate from high school. She is trying to choose her career. What does her choice have to do with specialization and trade? (Sanguita is deciding what special skills she has now or can obtain that will enable her to trade her labor to someone who will voluntarily provide her with an income.)

B. Gloria Carbone is opening a new Italian restaurant. In what way is she specializing and trading? (Gloria is deciding whether customers are interested in trading part of their income for her specialty—Italian cooking.)

C. Ron Norquist, mayor of a large city, acts on behalf of its residents and well trained workers to persuade a large manufacturer to build a new plant in the city. How does this venture involve specialization and trade? (Mayor Norquist is trying to trade the specialized human and physical resources of the city for the income to be provided to city residents by the wages paid for new jobs created by the plant.)

D. IBM is considering investing millions of dollars to develop a new line of special computers. How does this venture involve specializing and trading? (IBM leaders are considering whether people will trade their incomes for the new computer.)

E. After the removal of state subsidies, the manager of a large bus manufacturing firm in Poland can not sell enough buses to keep the business afloat. The manager is considering spending millions on new equipment and training. Describe the manager's plan by referring to specialization and trade. (The manager is trying to decide whether the plant could produce an alternative product—a new specialty—that people would be willing to trade their incomes to purchase.)

## VISUAL 1

# VALUE OF EXPORTS FROM THE AMERICAN COLONIES TO ENGLAND

## (IN POUNDS STERLING)

| *Year* | *Total* |
|---|---|
| 1700 | £ 395,021 |
| 1710 | 249,814 |
| 1720 | 468,188 |
| 1730 | 572,585 |
| 1740 | 718,416 |
| 1750 | 814,768 |
| 1760 | 761,099 |
| 1770 | 1,015,535 |

1. What appears to be the pattern of American colonial exports to England?
2. What does this pattern suggest about the importance of trade with England to the colonial economy?

**Source: Adapted from U.S. Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1970*, U.S. Government Printing Office, Washington, D.C., 1976.**

## VISUAL 2

# ENGLISH TOBACCO IMPORTS FROM AMERICA

| Year | Pounds (Weight) in millions |
|---|---|
| 1620 | 0.1 |
| 1630 | 0.5 |
| 1672 | 17.6 |
| 1682 | 21.4 |
| 1688 | 28.4 |
| 1708 | 30.0 |
| 1717 | 32.0 |
| 1722 | 35.0 |
| 1730 | 41.0 |
| 1740 | 41.0 |
| 1745 | 55.0 |
| 1755 | 64.0 |
| 1760 | 85.0 |
| 1775 | 102.0 |

1. What appears to be the pattern of English tobacco imports from colonial America?
2. What does this pattern suggest about the importance of the tobacco trade to the colonial economy?

Source: Adapted from the U.S. Bureau of Census, *Historical Statistics of the United States, Colonial Times to 1970,* U.S. Government Printing Office, Washington, D.C., 1976.

# VISUAL 3
# THE COLONIAL POPULATION

| Year | Total Number<br>Europeans and African Americans |
|---|---|
| 1630 | 4,646 |
| 1640 | 26,634 |
| 1650 | 50,368 |
| 1660 | 75,058 |
| 1670 | 111,935 |
| 1680 | 151,507 |
| 1690 | 210,372 |
| 1700 | 250,888 |
| 1710 | 331,711 |
| 1720 | 466,185 |
| 1730 | 629,445 |
| 1740 | 905,563 |
| 1750 | 1,170,760 |
| 1760 | 1,593,625 |
| 1770 | 2,148,076 |

1. What appears to be the pattern of colonial population growth?

2. What does this pattern suggest about the number of potential customers in the colonial economy?

Source: Adapted from the U.S. Bureau of Census, *Historical Statistics of the United States, Colonial Times to 1970,* U.S. Government Printing Office, Washington, D.C., 1976.

**Name**____________________

## ACTIVITY 1

# TELL ME WHAT YOU WANT AND I'LL TRY TO GET IT FOR YOU

WHAT SHOULD THE SETTLERS IN NORTH America produce? Whatever it was, it had to be something that people in Europe wanted. More than that, it also had to be something that people in North America could produce. This was a life-or-death problem for the settlers, and the *solution* was anything but simple. North America offered no known deposits of gold or silver. The spices of Asia were in Asia. All North America was known to have was land. But what should be produced? And who should produce it? No one knew the answer. Moreover, the grand plans of the first settlers failed miserably. The settlers began a process of trial and error to discover what they should produce.

Try to think of one product that could have been produced in colonial North America—one that would have been valued by people in Europe.

## PRIVATE LAND AS AN INCENTIVE

In the early years of settlement, the colonial population was small compared to that of Europe. Trading with the people of Europe seemed to be the best way for the colonists to become prosperous. The prospect of prosperity through trade provided the colonists with a set of incentives that encouraged them to discover what Europeans wanted. In response to these incentives, commercial activity began.

Commercial activity was encouraged by certain laws or rules. Of these, one of the most important was private ownership of land. Private ownership of land encouraged individual initiative and risk-taking among the colonists. After failed experiments with communal cultivation of land in Plymouth and Jamestown, private ownership of land became favored and was protected by law. By 1623 all property in Virginia was held by private owners. In 1691, the headright system was introduced, under which individuals who paid their own way to Virginia were granted 50 acres of land. By 1774, three out of four families in the colonies owned their own farms. Private ownership of land offered great, almost unheard of incentives to Europeans living in North America. They could not have hoped to own their own land if they had remained at home. In North America, however, it was possible for them to buy a small farm after working and saving for a year or two. This gave settlers a great opportunity to earn incomes they could never have achieved in Europe.

## THE PEOPLE

The prospect of living independently, away from feudal lords and aristocratic landowners, attracted people from Europe who were willing to take chances. In this respect, the people who moved to settle in the colonies were not typical—the typical people stayed at home. Those who crossed the Atlantic had managed to save some money or were willing to work as indentured servants to finance their voyage. They were willing to separate themselves from family and friends. They were willing to risk disease, the possibility of shipwreck, and the unknown. Moreover, they were people who responded quickly to economic opportunities. The Europeans who settled in the colonies had come voluntarily, accepting risks and hardship in return for the prospect of benefits. Africans, an important segment of the productive colonial population, came to the colonies involuntarily, as slaves. Once they arrived, they had far fewer economic choices open to them than others had.

## SPECIALIZATION AND TRADE

What products did Europeans want to buy? How should they be produced? Specialization and trade provided the answer. Some parts of North America were endowed with soil and climate suitable for the production of particular goods. Colonists could trade these goods and use the income to purchase from others what they did not have or could only produce at high cost.

The colonial settlers of North America discovered that different parts of North America offered different potential advantages. The rocky land and vast timber resources of New England differed from the rich agricultural land and warm climate of the South. In general, North

Americans specialized in producing raw materials and trading them with Europe in exchange for finished products. Overseas trade became an important part of colonial economic life.

Tobacco was the most profitable product. It was grown in the South and it made the Southern colonies prosperous. Tobacco made up almost half the colonies' total commodity exports in 1750. By the time of the Revolution, rice and indigo had also been established as important crops in which the South specialized.

Trade from New England to Europe began with the export of furs and soon expanded to include products from the fishing and whaling industries. Before long pitch, tar, turpentine, and masts also were traded to England. In nonagricultural production, New England led the way by specializing in building ships, especially sloops and schooners.

The Middle colonies became specialized as the "bread colonies." Their major customers were in Europe and the Caribbean. The Middle colonies traded grain (wheat, rye, and barley) to the Caribbean Islands; people in the Caribbean, in turn, shipped sugar to the colonies and Europe.

While most of the colonists engaged at first in self–sufficient farming and other production, specialization and trade became increasingly important to colonial economic life.

## QUESTIONS FOR DISCUSSION

1. Why did the colonists need to discover what Europeans wanted?

2. Why was private land such a strong incentive to encourage individual production?

3. In what ways were the people who were attracted to the colonies not typical?

4. How did specialization lead to more production in the colonies?

Name____________________

## ACTIVITY 2

## TRADE: IT'S EVERYWHERE! IT'S EVERYWHERE!

***Read each of the following statements. In each case, the people referred to are involved in deciding how to specialize and trade. Remember that trade involves a transaction. Partners to a trade exchange something for something else. For each case, tell who the partners are; then tell what each partner expects to trade and what he or she expects to receive in exchange.***

1. Sanguita Perez is about to graduate from high school. She is trying to choose her career. What does her choice have to do with specialization and trade?
2. Gloria Carbone is opening a new Italian restaurant. In what way is she specializing and trading?
3. Ron Norquist, mayor of a large city, acts on behalf of its residents and its well-trained workers to persuade a large manufacturer to build a new plant in the city. How does this venture involve specialization and trade?
4. IBM is considering investing millions of dollars to develop a new line of computers. How does this venture involve specializing and trading?
5. After the removal of state subsidies, the manager of a large bus manufacturing firm in Poland cannot sell enough buses to keep the business afloat. The manager is considering spending millions on new equipment and training. Describe the manager's plan by referring to specialization and trade.

# THE COSTS AND BENEFITS OF INDEPENDENCE

## INTRODUCTION

***History*** By the 1760s, the relationships established by the British with their North American colonies seemed difficult to sustain. When the English Parliament sought additional resources from the colonies, many Americans no longer wished to cooperate.

***Mystery*** The British colonies in North America were able to grow and prosper. Since the colonists were economically successful under British rule, why did they fight so hard for independence?

***Economic History*** For most of their history, the colonists had experienced few costs and many benefits from membership in the British empire. New Parliamentary restrictions on settlement and new taxes increased costs and suggested that continued membership would yield fewer additional benefits in the future. Achieving the benefits of independence appeared to be worth the costs of armed conflict.

## CONCEPTS

Trade
Taxation
Costs
Benefits

## OBJECTIVES

♦ Identify benefits and costs of membership in the British empire.

♦ Analyze the colonists' decision to rebel by comparing their current and future advantages and disadvantages as members of the empire.

## LESSON DESCRIPTION

This lesson begins with discussion of an economic mystery. Students read and discuss information in a handout to solve the mystery.

## TIME REQUIRED

♦ One class period

## MATERIALS

One transparency of Visual 1.
One copy for each student of Activity 1.

## PROCEDURE

1. Explain to the class that American colonists experienced many benefits as a result of their membership in the British empire. Many American colonists, in fact, became prosperous under this arrangement. These facts present us with an economic mystery. Distribute Activity 1 and read the introduction to the class. Since the colonists had been economically successful under British colonial rule, why did they fight so hard for independence?

2. Display Visual 1 and review the *Handy Dandy Guide (HDG)*. Ask the students to speculate about the answer to this mystery. Stress that while the immediate benefits of choosing to remain in the empire were appealing to some (Principle 1), many colonists apparently were also calculating what the consequences would be in the future (Principle 6).

3. Divide the class into groups. Tell the students that their purpose in reading the remainder of Activity 1 is to find out what the colonists' advantages and disadvantages were as members of the empire. Then find out what tipped the scales toward independence by completing Activity 1.

4. Discuss Activity 1 by asking:

   A. What benefits did the colonists gain from membership in the British empire? (Bounties on colonial products and military protection.)

   B. What costs did the colonists incur as a result of their membership in the British empire? (Restrictions on trade, restrictions on settlement, and increased taxes.)

   C. Why did the American colonists decide to fight for independence? (The colonists believed that future costs of membership in the empire were increasing and future benefits were decreasing. They wished to preserve the independence they experienced prior to 1650, before the passage of the Navigation Acts and other new restrictions.)

## CLOSURE

Remind the class that an economic perspective assumes that historical events result from human choices. When people choose, they are selecting options whose benefits appear to exceed their costs. American colonists chose to fight the Revolution because they believed benefits would not exceed future costs which were increasing.

# VISUAL 1
# *HANDY DANDY GUIDE (HDG)*

1. People choose.
2. People's choices involve costs.
3. People respond to incentives in predictable ways.
4. People create economic systems that influence individual choices and incentives.
5. People gain when they trade voluntarily.
6. People's choices have consequences that lie in the future.

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

Name________________________

# ACTIVITY 1
# THE COSTS AND BENEFITS OF INDEPENDENCE

## AN ECONOMIC MYSTERY

The British brought an economic system to North America that enabled the colonies to grow and prosper. Planters produced large crops of rice, indigo, and tobacco. Small farmers were successful at raising livestock, corn, and wheat. Colonists steadily expanded their export markets. If the colonists were economically successful under British rule, why did they fight so hard for independence?

If we use economic reasoning to understand the problem, we recognize that the colonists must have imagined that they were acting in their own best interests. They were making an economizing decision wherein the expected benefits of remaining under British control must have seemed no longer worth the expected costs. Let's pursue this by looking first at the benefits.

## THE BENEFITS

Clues to solving the mystery can be found by considering the benefits the colonists gained by remaining in the empire.

***Bounties:*** A bounty was a special subsidy paid by the British to encourage trade of some products. The British government recognized the export value of indigo, silk, and naval stores (naval stores are pitch, turpentine, tar, and masts). To secure these products, the British paid a bounty to some colonists who traded the products to England, in addition to whatever the product earned when sold in Britain. These bounties gave the colonists more than they would have otherwise earned. The bounties assured Britain a supply of these products.

***Shipbuilding:*** Other economic rules also benefited the colonies. For example, English law required that ships used for trade in the empire must be built in the empire. This law stimulated demand for ships built in New England. Eventually one-third of the British empire's ships were built in the colonies.

***Military Protection:*** The defense of the colonies was paid for by Britain. The British government helped the colonists to fight the Spanish, some Native Americans, and the French. Moreover, American ships under the British flag were able to sail along the Barbary coast without fear of the Barbary pirates. Britain had negotiated agreements with the pirates to discourage them from attacking British or colonial ships.

***Left Alone:*** Until the 1650s and the passage of the Navigation Acts, the North American colonies were independent in all but name. The restrictions of the Navigation Acts were often ignored. The colonists were English citizens who enjoyed being members of the British empire but, in fact, were left largely on their own. Many colonists prospered under this British policy of benign neglect.

What do you think were some of the costs of remaining in the empire?

## COSTS

Obviously, important clues to understanding the colonists' decision to fight can also be found in looking at the costs of membership in the empire.

***Trade Restrictions:*** A deliberate policy of tighter controls over the colonial economy began in the 1650s. In response to competition from the Dutch, the British Parliament imposed the Navigation Acts in 1651 and expanded them in 1660. The 1660 Act required, among other things, that certain products produced in the colonies were to be shipped only to England before being shipped anywhere else. Sugar, tobacco, and indigo were on the list of products, and these exports were important to the colonies. The new law restricted the markets for their sale, so it was not surprising that the law provoked complaints.

***Settlement Restrictions:*** In 1763, the British defeated the French forces in America and acquired a vast area around the Great Lakes.

The territory was inhabited by Native Americans who had supported the French against the English. The American colonists wanted to press settlement further into this territory. Tensions ran high. Fighting broke out between colonists and Native Americans. Soon, Chief Pontiac led the powerful Iroquois into the fight.

The British response was to separate the warring parties. The Proclamation of 1763 forbade further settlement across the Appalachian Mountains. This solution angered many colonists who had wanted to divide this land into farms for settlement. Moreover, it did little to solve the problem. Illegal settlement in the contested area continued.

***Increased Taxes:*** By 1763, after they had concluded the French and Indian War, the British struggled to pay debts incurred during the war. They felt that the colonies should share some of the burden. The result was the passage of a series of laws intended to extract more revenue from the colonies. Included were the Sugar Act, the Stamp Act, the Townshend Acts, and the Tea Act.

You have now read about some of the benefits and costs of colonial membership in the British empire. Why do you think the colonists chose to fight for independence?

## WHY FIGHT?

The colonists saw clear benefits and costs in continued membership in the British empire. What tipped the scales in favor in independence? The colonists believed that the future benefits of empire membership were declining while future costs were rising. Until 1763, the North American colonies were nearly independent. The benefits of membership were high and the costs were low. After 1763, increasing interference was the new British policy. The costs of membership were increasing. When the benefits are decreasing and the costs are increasing, people are encouraged to make different choices.

Interference was most clearly represented by efforts to increase taxes. People tend to accept tax obligations voluntarily if they are convinced that the public services paid for by the taxes are worth the cost. The colonists decided that the new taxes were more of a benefit to English citizens elsewhere and less of a benefit to the colonists. With eyes fixed clearly on the elimination of increased costs, the colonists decided to fight to achieve formal independence despite the powerful incentives offered by remaining in the empire.

Was leaving the empire the right decision? It may be the case that the costs of remaining in the empire would not have been as great as the colonists thought they would be. Parliament might have been persuaded to remove the restrictions it imposed. Moreover, the colonists almost certainly underestimated the costs of the war. Nonetheless, they acted in what they thought was their own self–interest.

## QUESTIONS FOR DISCUSSION

1. What benefits did the colonists gain from membership in the British empire?

2. What costs did the colonists incur as a result of their membership in the British empire?

3. Why did the American colonists decide to fight for independence?

# ENTREPRENEURSHIP CASE STUDY: ELIZA LUCAS PINCKNEY

## INTRODUCTION

***History*** Eliza Lucas Pinckney (1722–1793) was a colonial planter who contributed to the economic development of South Carolina and the other colonies by introducing indigo plants to the mainland of North America.

***Economic History*** Successful economies create incentives that encourage people to change in response to new circumstances. They reward economic activity which responds to these circumstances in efficient ways. How economies change depends on people's creativity in finding efficient solutions to problems. Entrepreneurs are creative people who, in responding to incentives, devise new technologies or organizations to deliver new or improved products more efficiently than before.

## CONCEPTS

Incentives
Entrepreneurship
Efficiency

## OBJECTIVES

♦ Recognize that economic growth in the past depended in part on offering incentives which rewarded entrepreneurship.

♦ Identify the contributions of Eliza Lucas Pinckney to making the colonial economy more efficient.

## LESSON DESCRIPTION

This lesson features class discussion of an entrepreneurial case study.

## TIME REQUIRED

♦ One class period

## MATERIALS

One copy for each student of Activity 1.

## PROCEDURE

1. Tell the class that when we study the history of the U.S. economy, we sometimes fail to recognize that people's creativity is one of the most important forces in the economy. In this lesson, we will study the role of new ideas in finding ways to become more efficient.

2. Distribute Activity 1 to the class. Invite the students to read about Eliza Lucas Pinckney, one of America's first female entrepreneurs.

3. After the students have completed their reading, *ask:*

A. How can an economy encourage creativity? (By providing incentives or rewards to entrepreneurs.)

B. Why are entrepreneurs important to the historical development of an economy? (Entrepreneurs devise new technologies or organizations to deliver a new product.)

C. What was the key contribution of Eliza Lucas Pinckney to the economy of South Carolina? (She introduced indigo to South Carolina.)

D. Why was indigo such a valuable crop? (It could be produced efficiently when it was planted in rotation with rice. Moreover, there was a large demand for indigo for use in the British textile industry leading to higher prices and profits in South Carolina. The crop eventually became a leading colonial export.)

## CLOSURE

Review the role entrepreneurs play in helping an economy to grow and change. The chance to earn a profit is an important reward offered by our economy to entrepreneurs. What other rewards might there be? Encourage the students to name some examples such as fame, as well as the enjoyment and satisfaction entrepreneurs may gain by helping to generate jobs for others.

Name____________________

# ACTIVITY 1
# ELIZA LUCAS PINCKNEY WEALTH CREATOR

WHY DO ECONOMIES GROW? THERE ARE many reasons. One has to do with change. Successful economies change to meet new circumstances. They provide incentives or rewards for creative economic activity which leads to improved efficiency.

How economies change depends in part on people's ideas about how to approach new circumstances and new opportunities. Entrepreneurs are people who introduce new technologies or organizations to deliver a new or improved product which previously may have seemed unimaginable or inefficient. Some entrepreneurs have helped lead economies into new, unexpected directions. Often, they reap large economic rewards.

Eliza Lucas Pinckney was one of America's first female entrepreneurs. She was a colonial planter in South Carolina. In 1743, she introduced indigo to mainland North America by growing indigo plants on her father's plantation near Charleston. She also taught other farmers how to grow the crop. Moreover, she was influential in helping farmers learn how to work with flax, hemp, and silk culture.

Indigo, a deep blue dye taken from the indigo plant, was a coloring agent for cotton and wool. It was therefore very useful in the British textile industry. It was grown originally in India. Eliza Lucas probably learned of the crop when she was a young girl living in the Caribbean.

Indigo turned out to be an ideal crop for South Carolina, for two reasons. First, it was efficient to produce. Indigo could be grown as a complement to rice. Both crops required a great deal of labor but at different times of the year. The peak seasons for work in the indigo fields were different from those for rice.

Second, people were willing to pay a high price for indigo. It was considered so important to the textile industry that Britain paid a subsidy or bounty to indigo producers. Indigo became a leading export throughout the colonial period in South Carolina and Georgia. This trade brought new wealth to South Carolina.

At age 16, Eliza Lucas took charge of her father's three plantations in South Carolina. At a time when few women were engaged in business, Eliza spent 35 years successfully managing her plantations. Upon her death in Philadelphia, George Washington, at his own request, served as a pallbearer at her funeral.

## QUESTIONS FOR DISCUSSION

1. How can an economy encourage new ideas to be efficient?

2. Why are entrepreneurs important to the historical development of an economy?

3. What was a key contribution of Eliza Lucas Pinckney to the economy of South Carolina?

4. Why was indigo such a useful crop?

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

# SAMPLE TEST ITEMS

## LESSON 1

1. The New England colonies specialized in
   - A. Growing tobacco
   - B. Farming
   - C. Growing rice and indigo
   - ✓D. Fishing, whaling, and shipbuilding

2. In what way is this a true statement?: No single person or agency could have planned how the North American colonies of England would develop economically.

*Possible answer:* The colonists used trial and error to find out what products could be produced. However, the choices were not random. Private land ownership provided colonists with a powerful incentive to find productive uses for their land.

3. Louie Lewis works fast and is skilled at operating loading equipment. He has decided to accept a second job working evenings for an overnight parcel delivery service. How is he specializing and trading?

*Possible answer:* Louie is deciding to trade his skills to the overnight delivery firm which, in turn, will voluntarily provide him with additional income from wages in return for his labor.

## LESSON 2

1. Eliza Pinckney, one of America's first female entrepreneurs, was successful in making the production of indigo in South Carolina
   - A. Mechanized.
   - B. Labor intensive.
   - ✓C. Efficient.
   - D. Inefficient.

2. What were the costs and the benefits of colonial membership in the British empire?

*Possible answer:* The benefits of colonial membership included bounties on some colonial products and military protection. The costs of membership included restrictions on trade, restrictions on settlement, and increased taxes.

3. Use economic reasoning to explain why American colonists decided to fight for independence.

*Possible answer:* When people choose, they select options that have greater expected benefits over costs. The colonists believed that the costs of membership in the Empire were increasing and that the expected benefits were decreasing. They wished to preserve the independence they experienced prior to the imposition of new restrictions and taxes.

## UNIT FIVE: OVERVIEW

# THE CONSTITUTIONAL PERIOD

UNIT 5 EXAMINES CHANGES IN THE U.S. ECONOMY during the Constitutional period. Its lessons analyze the economic features of the U.S. Constitution.

Lesson 1 invites students to use economic reasoning to examine the problems facing the new nation under the Articles of Confederation, including the national debt, taxation, tariff battles, and military weakness.

Lesson 2 examines what the Constitution did to establish the basis for a successful U.S. economy. By establishing rules which protect contracts and private property rights and encourage trade and innovation, the Constitution created an environment in which a market economy could develop and flourish.

Lesson 3 features an entrepreneurship case study of George Mason. It stresses that people in public life also can be entrepreneurial in their work.

Lesson 4 features an entrepreneurship case study of Adam Smith, the founder of modern economics. Students examine excerpts from the *Wealth of Nations* to discover some of Smith's ideas.

# PROBLEMS UNDER THE ARTICLES OF CONFEDERATION

## INTRODUCTION

***History*** The Articles of Confederation, adopted in 1781, represented the former colonists' first attempt to establish a new government after the Revolutionary War. These Articles provided for a weak central government. Because of the excesses of King George III, whose rule they had just overthrown, the Americans were reluctant to grant much economic power to the central government.

***Mystery*** Americans faced severe problems after the Revolutionary War such as the national debt. Many argued that the national government, even if it had strong powers of taxation, should refuse to pay its war debts. After all, the bonds issued to pay for the war debt had changed hands many times. Payment would not go to those who originally had helped support the war effort. Only speculators would benefit. But others argued that war debts must be repaid. Why?

***Economic History*** As Americans began to recognize the problems associated with the Articles of Confederation, they anticipated that their approach to solving these problems would influence the economic strength of the nation in the future. For example, failure to repay debts would discourage lending, resulting in reduced investment in the country's future. Imposition of trade barriers would discourage specialization and reduce voluntary trade among states.

## CONCEPTS

Debt
Tax
Tariff
Trade
Currency

## OBJECTIVES

♦ Identify the economic problems facing the nation during the period of the Articles of Confederation.

♦ Make predictions about how the failure to address these economic problems could hurt the economic growth of the nation.

## LESSON DESCRIPTION

This lesson begins with discussion of the economic problems facing the new nation. Students read and discuss information in a handout; then they make predictions about effects on economic growth.

## TIME REQUIRED

♦ One class period

## MATERIALS

One transparency each of Visuals 1 and 2.
One copy for each student of Activities 1 and 2.

## PROCEDURE

1. Explain to the class that new nations often face serious economic problems. Newly independent nations in Africa, Asia, Latin America, and, more recently, the nations of Central Europe, had to make fundamental decisions about how to manage their economic problems. The economic situation facing the United States in 1781 caused some to think that the new country was on the brink of economic collapse.

2. Display Visual 1. Use the diagram to provide an overview of what the students will read about in Activity 1.

3. Distribute Activity 1 to the class. Explain to the class that they should use economic reasoning to answer questions about the problems faced by the United States under the Articles of Confederation.

4. Divide the class into four small groups. Assign each group to work on one of the four topics in Activity 1: debt, power to tax, tariff wars, and weak military. Ask each group to write out its predictions and explanations.

5. Discuss the students' reasoning about each problem. Distribute Activity 2. Ask members of the class to compare their reasoning to the reasoning provided in Activity 2.

A. Should the United States have paid its debt? (People lend money in the expectation of repayment with interest. Lenders would have lost confidence in the U.S. government if debts had not been paid. Future borrowing and investing to stimulate economic growth would have been discouraged.)

B. Should the United States have the power to tax? (The government needed a practical way to repay debts. Without revenue, the government might have defaulted on debts, threatening its ability to obtain credit from other nations in the future. This would have discouraged future saving and investment, reducing the potential for economic growth.)

C. Should states be able to tax each other's goods? (If states had placed tariffs on goods and services imported from other states, the prices of goods and services would have increased. States would have been discouraged from specializing in producing the goods and services they could provide most efficiently. Instead, they would have faced incentives to become more self-sufficient. The result would have been less wealth for the nation.)

D. Display Visual 2. Ask the students to use supply and demand curves to explain how tariffs would reduce supply and increase price. (Placing tariffs on goods from other states discourages the willingness to produce. This would reduce supply from $S_1$ to $S_2$. Prices would increase from $P_1$ to $P_2$.)

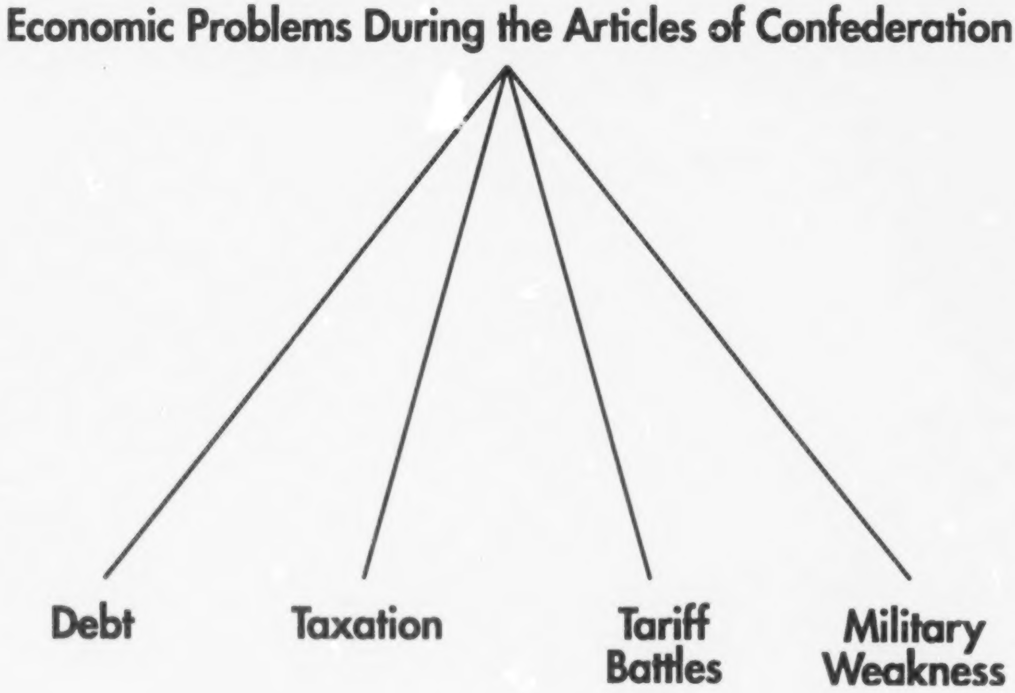
E. Should the United States strengthen its military? (The costs of U.S. shipping would have been higher. Trade would have been discouraged. The standard of living would have been reduced. This poses another problem. Were the benefits from trade greater than the costs of having a stronger military? Perhaps the benefits of remaining in the British empire were greater than imagined.)

## CLOSURE

Conclude the lesson by projecting Visual 1 again on the overhead projector. Review the problems faced by the new American government. Ask the students to use economic reasoning to explain how these problems should be addressed to encourage economic growth.

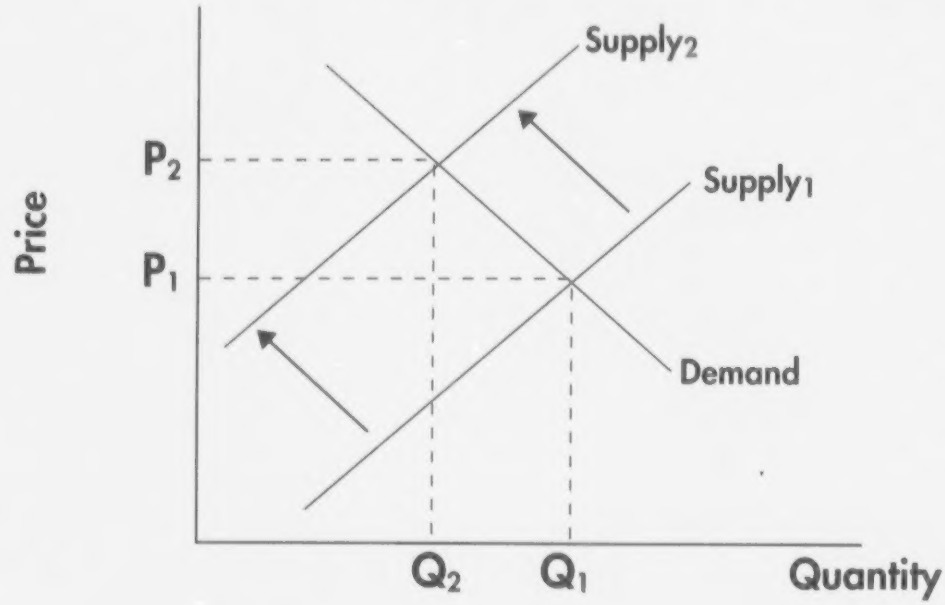
# VISUAL 1

# ECONOMIC PROBLEMS DIAGRAM


Economic Problems During the Articles of Confederation
Debt
Taxation
Tariff Battles
Military Weakness

## VISUAL 2

# TARIFFS ON EXPORTS FROM OTHER STATES



Name________________________

# ACTIVITY 1
# ONE NATION OR THIRTEEN?

*The American people had just won the Revolutionary War, a remarkable accomplishment in the eyes of people all over the world. Now the economic problems facing the new nation had to be solved. To many, the situation seemed bleak. However, knowing how to use economic thinking will enable you to decide which policies might have been best for the economy.*

**DEBT:** After the Revolutionary War, Congress faced enormous debt. The United States owed money to the French, who helped support the war. Money also was owed to American citizens who previously had bought bonds from the government to help support the war effort. The problem was so severe that some Americans recommended simply not paying back the debts that were owed. Some people argued that, since these bonds had changed hands several times, payment now would not go to the people who originally helped support the war effort but to speculators who had purchased the bonds from them.

***Economic Reasoning:*** Remember that people respond to incentives in predictable ways. People make loans expecting repayment with interest. Predict what would happen if war debts were unpaid. Explain briefly.

**POWER TO TAX:** The federal government, according to the Articles of Confederation, could levy a direct tax only if the money were turned back to the states on the basis of population. In other words, the federal government was very restricted in how it could collect revenue to handle its own debts and expenses.

***Economic Reasoning:*** Remember that people respond to incentives in predictable ways. People who make loans to governments expect repayment with interest. Predict what would happen if government debts were unpaid. Explain briefly.

**TARIFF WARS:** There were some signs that tariff wars would erupt between the states. New York imposed a fee on vessels traveling to and from Connecticut and New Jersey. Not to be outdone, New Jersey imposed its own tax on a New York–owned lighthouse on New Jersey soil. New Jersey, lying between New York City and Philadelphia, found its imports heavily taxed. Leaders in other states watched attentively and considered placing their own taxes on products from neighboring states.

***Economic Reasoning:*** Remember that people gain when they trade voluntarily. Predict what would happen if states could place tariffs on goods from other states. Explain briefly.

**WEAK MILITARY:** Britain continued to occupy its territories in the Great Lakes region, in open violation the Treaty of Paris, which ended the Revolutionary War. British occupation interfered with Americans who sought to develop the Northwest Territory. The Spanish refused to grant Americans navigation rights on parts of the Mississippi River. Meanwhile, the Barbary pirates were attacking American shipping in the Mediterranean Sea.

***Economic Reasoning:*** Remember that people gain when they trade voluntarily. Predict how a weak military would affect trade. Explain briefly.

Name____________________

# ACTIVITY 2
# APPLYING ECONOMIC REASONING TO THE ARTICLES OF CONFEDERATION

## 1. SHOULD THE UNITED STATES HAVE PAID ITS DEBT?

People lend money in the expectation that the money will be fully repaid at the agreed upon rate of interest. Interest, in this case, is a reward for lending money.

A government refusing to pay its war debts would seem untrustworthy to lenders. Citizens would hesitate to place their savings in U.S. government bonds or in new businesses, knowing that the government might break its promise to repay or might allow others to do so. People who lend money under these circumstances would expect to be compensated for their risk at higher rates of interest than would otherwise be charged.

The United States government and the nation's many new farms and businesses needed to be able to borrow money. Failure to repay debts would limit the future ability of each of those groups to borrow and invest in the economy.

Economic reasoning suggests, therefore, that the war debts should have been repaid.

## 2. SHOULD THE UNITED STATES HAVE THE POWER TO TAX?

The analysis here is similar to the previous analysis of repayment of debts. A government without an ability to tax has few ways to repay its financial obligations or meet its military expenses. To default on loans would decrease the possibility of obtaining credit from other nations at reasonable rates of interest.

Economic reasoning suggests that the federal government, therefore, needed to have the power to levy and collect taxes.

## 3. SHOULD STATES BE ABLE TO TAX EACH OTHER'S GOODS?

An economic way of thinking tells us that people gain when they trade voluntarily. Erecting tariff walls would restrict trade and thus encourage farms and businesses to try to become self–sufficient rather than depend on trade with farms and businesses in other states. Imagine the situation today if people in New York were persuaded to grow their own citrus fruit because they did not want to depend on imported citrus products from Florida. In discouraging trade between states, tariffs also discourage specialization. Overall, fewer goods would be produced at higher cost. The economy would not be as efficient if trade across state borders were taxed.

Economic reasoning suggests, therefore, that states should have been prevented from taxing goods imported from other states.

## 4. SHOULD THE UNITED STATES STRENGTHEN ITS MILITARY?

People gain when they trade voluntarily. It was difficult to conduct trade when merchants were fearful that their products would be stolen by pirates or someone else. An adequate level of military protection appeared necessary if the nation expected to be a successful trader.

Economic reasoning suggests, therefore, that the United States needed a more powerful military than it had during the period of the Articles of Confederation. However, this raises another question that is worth pondering: Were the benefits from more secure trade greater than the costs of a stronger military needed to secure the trade? Perhaps the benefits of remaining in the British empire were greater than the colonists had imagined.

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

# THE CONSTITUTION: GROUND RULES FOR THE ECONOMY

## INTRODUCTION

***History*** From May until September 1787, 55 delegates to the Constitutional Convention met in Philadelphia for "the sole and express purpose of revising the Articles of Confederation." Instead, they decided to write a new Constitution. The Constitution they wrote embodied important ideals of economic freedom.

***Mystery*** Many nations have written constitutions but have failed to grow economically. How did the U.S. Constitution become a force in promoting economic growth?

***Economic History*** The Constitution established the rules within which the U.S. economic system would develop. Rules determine the incentives that influence people's economic behavior. By establishing rules that enforce contracts, protect private property rights, and encourage trade and innovation, the Constitution created the environment in which a market economy could develop and flourish.

## CONCEPTS

Incentives
Private Property
Trade
Money
Taxation
Innovation

## OBJECTIVES

♦ Identify sections of the U.S. Constitution that fostered the development of a market economy.

♦ Analyze the relationship between productive behavior and provisions in the Constitution that protect rights to private property and freedom of contract.

## LESSON DESCRIPTION

Students in small groups examine key economic clauses in the U.S. Constitution and discuss contemporary examples.

## TIME REQUIRED

♦ One class period

## MATERIALS

One copy for each student of Activity 1.

One transparency of Visual 1. You may wish to have students refer to textbook copies of the U.S. Constitution.

## PROCEDURE

1. Tell the class that the purpose of this lesson is to use economic reasoning to understand how the U.S. Constitution helped create an environment that fostered the development of a market economy.

2. Remind the class that in 1787 it was not at all clear how the United States would develop economically. Large problems existed during the time of the Articles of Confederation, including unpaid war debts, the inability of the Continental government to levy and collect taxes, and fears of tariff "wars" between states. Everybody knows that the United States eventually developed a strong economy. But it did not necessarily have to turn out that way. Many nations today that have written constitutions still fail to grow economically. What is it about the U.S. Constitution that fostered the development of a market economy?

3. Explain that the economic growth of the United States reflects certain general rules set forth in the U.S. Constitution. These rules create incentives that reward some kinds of behavior and discourage others.

4. Distribute Activity 1 to the class. Discuss the directions and the opening paragraphs with the whole class. You may wish to have students refer to textbook copies of the Constitution.

5. Divide the class into small groups. Ask each group to examine each part of the Constitution discussed in Activity 1 and then to come up with examples.

6. Ask each group to report on the examples it identifies.

A. *Contract Clause example*
(If apartment renters could "walk away" from leases they had signed, many landlords would refuse to rent their property.

They would have little incentive to do so. Instead, they would put their property to other uses. The amount of housing available would decline almost overnight. Landlords still willing to rent would charge higher rents and impose stricter income limits on tenants before renting. Poor people would have even more trouble than they otherwise do finding proper housing.)

B. *Commerce Clause example*
(If Illinois placed a tax on Wisconsin cheese, cheese would become more expensive to people in Illinois, since the tax would be passed along to Illinois consumers in the form of higher prices. A *"Bureau of Cheese Police"* would need to be set up by the state of Illinois to collect the tax. Illinois consumers would buy less cheese, and dairy farming in Wisconsin would be hurt. Illinois dairy farmers would be protected from competition from Wisconsin dairy farmers. Tax revenue from the cheese tax would go into Illinois state coffers.

Wisconsin legislators would likely seek to retaliate against Illinois by placing a tax on all Illinois vacationers coming to use lake resorts in northern Wisconsin. The *"Bureau of Vacation Police"* would be set up by the state of Wisconsin to collect the tax. Wisconsin vacations would become more expensive to people from Illinois, who would thus be encouraged to vacation elsewhere. Tax revenue from the vacation tax would go into Wisconsin state coffers. Because of reduced trade between the states, the standard of living would decline for people in both states.

C. Display Visual 1 to the class. Ask the students to use supply and demand curves to explain how the cheese tax example used in the previous procedure would reduce the supply of cheese and increase its price. (The cheese tax would reduce incentives to produce cheese. Supply would shift from $S_1$ to $S_2$. Note the change in price and quantity.)

D. *Fifth Amendment example*
(Since the early 1990s, efforts have been made to restore private property rights in Russia and the other nations of the former Soviet Union. Yet, it is not surprising that many individuals remain suspicious that the government might again violate these rights. Such worries would slow efforts to make productive uses of former state–run farms.)

E. *Taxation Clause example*
(Accept any example of a good or service paid for by taxes from the federal government, for example, national defense, Social Security, and U.S. National Parks and Forests.)

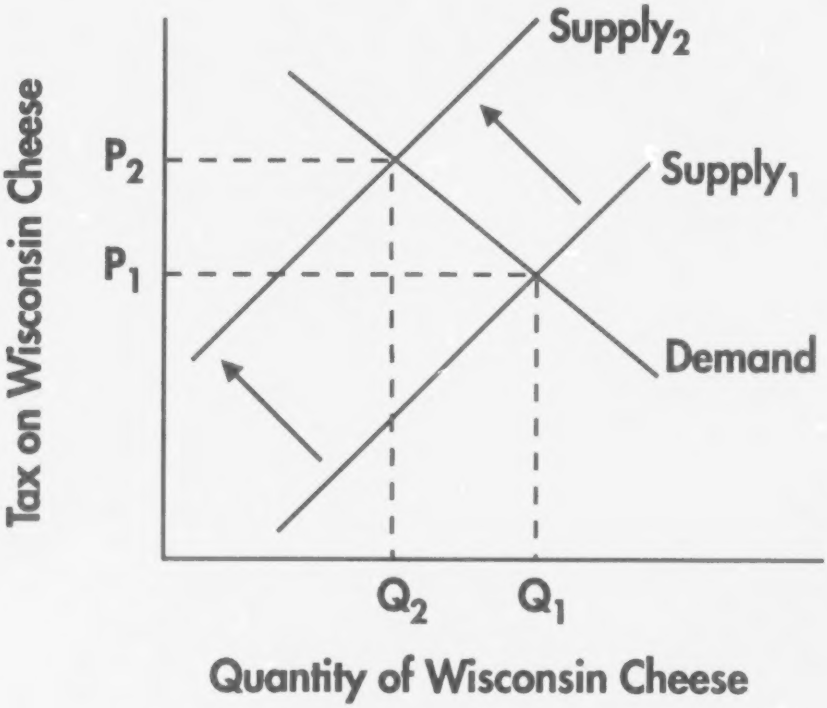
F. *Coinage Clause example*
(The lack of a single European currency generates revenue for banks which charge fees for exchanging one currency for another, but it does little to encourage economic growth. Imagine the difficulty of investors in European businesses when they are presented with a puzzling array of 12 different currencies, each with its own exchange rate relative to the others. The creation of a single–currency European capital market will make it easier for businesses and consumers to conduct trade. Moreover, investors will be able more easily to compare offers on stocks and bonds and other securities originating in many countries, from Norway to Spain. This incentive will provide encouragement to invest in Europe.)

G. *Copyright Clause example*
(Accept a variety of responses. Explain that patents and copyrights affirm the property rights of people who invest in producing new goods and services. These legal devices create incentives that reward and encourage productivity.)

## CLOSURE

Ask the students to summarize briefly the various points in the Constitution which provide the environment for a market economy. They are the contract clause, commerce clause, 5th amendment, taxation clause, coinage clause, and the copyright clause.

# VISUAL 1
# TARIFFS ON EXPORTS FROM OTHER STATES



From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

**Name**__________________________

# ACTIVITY 1
# THE CONSTITUTION: GROUND RULES FOR THE ECONOMY

***Directions:*** Study the following information. Answer the questions which follow each explanation of how the Constitution set the ground rules for the growth of the U.S. economy. These questions ask you to develop examples or explanations of the economic provisions of the Constitution.

Certain ideals of economic freedom appealed to the writers of the U.S. Constitution. While it was primarily a political document, the U.S. Constitution included a set of economic rules that would reward people for being productive. In this sense, the U.S. Constitution specified a written system of incentives to encourage enterprising behavior. The writers of the U.S. Constitution set forth a plan that permitted a market economy to develop and flourish.

## CONTRACT CLAUSE

Article 1, Section 10 of the U.S. Constitution states that *"no state shall . . . pass any Bill of Attainder, ex post facto law or law impairing the obligation of contracts."*

This provision protects the enforcement of contracts. Contracts must be enforceable so that property can be exchanged. Without freedom of contract and enforcement of contracts, there would be little stability in financial arrangements. Uncertainty would discourage people from getting involved in economic life.

1. Use economic reasoning to predict what would happen if apartment renters today did not have to hold to the provisions of the lease agreements they signed.

## COMMERCE CLAUSE

Article 1 Section 8 of the U.S. Constitution states that Congress shall have the power *"to regulate commerce with foreign nations, and among the several states, and with Indian tribes."*

This clause prevents states from doing their own regulating of interstate commerce. If individual states were allowed to impose tariffs on goods from other states, trade between states and specialization would be discouraged.

2. The Illinois state legislature, grown weary of the unearned and boastful pride of Wisconsin *"cheeseheads,"* passes a law placing a 10% tax on all cheese "imported" from Wisconsin. Using economic reasoning, what do you predict would happen?

## FIFTH AMENDMENT

The Fifth Amendment to the U.S. Constitution provides that no person shall be *"deprived of life, liberty, or property without due process of law."*

In other words, the federal government may not arbitrarily take away the property of individuals, for example, it may not nationalize businesses or farms or appropriate homes without following legal procedures. Such actions, when carried out without regard for legal procedure, create great instability and uncertainty. People under such circumstances are reluctant to work or open businesses for fear that the government will take their property.

3. Under the leadership of Josef Stalin, the Communist Party of the Soviet Union in the 1930s forced peasants from their land, killing millions who refused to give up their property to the state. Many of these lands were converted to collective state–run farms. Before 1914, the former Soviet Union was an important producer of agricultural products. By 1991, however, its agricultural productivity was less than one–third that of the United States. Use economic reasoning to explain how this low level of agricultural productivity may relate to the power of the former Soviet government to take property from its citizens.

## TAXATION CLAUSE

Article 1 Section 8 of the U.S. Constitution states that Congress shall have the power *"to lay and collect taxes."*

This power enabled the federal government to use tax revenue to pay for public goods, for example, providing for national defense and building roads, bridges, and canals.

4. Give a current example of how federal taxation is used to provide a specific public good or service.

## COINAGE CLAUSE

Article 1 Section 8 of the U.S. Constitution states that Congress shall *"coin money, and regulate the value thereof."*

Imagine the confusion in running a business or buying goods and services if each of the 50 states had its own currency. Imagine the difficulty of shopping in other states. Imagine the difficulty for investors in comparing offers of stocks and bonds from various states. This multiplicity of currencies would add greatly to the costs of doing business and investing in the economy.

5. Explain how the establishment of a common currency among the nations of the European Community (EC) would help to stimulate economic growth in Europe.

## COPYRIGHT CLAUSE

Article 1 Section 8 of the U.S. Constitution states that Congress shall secure *"for limited times to authors and inventors the exclusive right to their respective writings and discoveries."*

This clause encouraged innovation by allowing authors and inventors to maintain control over their products. Winning a patent for an idea offers an incentive for people to voluntarily invest time, imagination, and resources in inventing goods and services others might wish to have. In 1990, for example, the U.S. Patents Office granted patents granted for:

- A laser system to remove decay from teeth and gums without drills, scrapers, or injection of Novocain.
- Heated windshield wipers to melt snow and ice.
- A device that uses echoes to assist blind people in finding their way by judging how far they are from surrounding objects.
- A golf putter with a built–in level indicator which estimates the slope of the putting green.

6. Imagine a new good or service that you might like to patent. Explain how the prospect of gaining a patent for that good or service might encourage you to work at developing it.

# ENTREPRENEURSHIP CASE STUDY: GEORGE MASON

## INTRODUCTION

***History*** George Mason (1725–1792) was a Virginia statesman who played an important role in the U.S. Constitutional Convention. He also drafted much of the Virginia state constitution and Virginia's Declaration of Rights, which later became the basis of the Bill of Rights in the U.S. Constitution.

***Economic History*** We often associate entrepreneurship with leaders in business. However, people in public life also can be entrepreneurial in creating new organizations that permit new activity.

## CONCEPTS

Entrepreneurship in public life

## OBJECTIVES

♦ Identify the contributions of George Mason to the development of economic ideas in the Constitution.

♦ Recognize the important contributions entrepreneurs make in creating new economic institutions.

## LESSON DESCRIPTION

This lesson features a class discussion of a case study of an entrepreneur.

## TIME REQUIRED

♦ One class period

## MATERIALS

One copy for each student of Activity 1.

## PROCEDURE

1. Tell the class that when we study economic development, we often seem to concentrate on facts and figures, and often associate entrepreneurship only with leaders in business. People in public life, however, also can create new ways of doing things.

2. Distribute Activity 1 to the class. Invite the students to read about George Mason, one of America's entrepreneurs in public life.

3. After the students have completed their reading, *ask:*

A. Why are entrepreneurs important to an economy? (Entrepreneurs are people whose creativity contributes to the development of new ways of doing things.)

B. What are some characteristics of entrepreneurs? (Entrepreneurs work to create new organizations. Their willingness to see a project through to the end is another.)

C. How did George Mason's ideas contribute to economic growth? (As a member of the Constitutional Convention, Mason helped devise a pattern of government that would preserve individual freedoms and yet permit government to perform essential operations. He worked out the principle of dividing government into offsetting branches—executive, judicial, and legislative. This pattern made it more difficult for special interest groups to gain economic favors that might reduce trade and competition. Moreover, Mason worked for explicit recognition of individual rights in the Constitution. He labored to have a Bill of Rights included within the body of the Constitution.)

D. Why did Mason fail to sign the Constitution? (He objected to the failure to include a Bill of Rights in the original and to the "three-fifths" compromise on slavery.)

## CLOSURE

Ask the class to consider how dividing the federal government into three branches (and the legislative branch into two parts) discourages government leaders from granting economic favors to citizens with special interests. For example, in order to gain a tax break for a particular business, a member of Congress must gain the cooperation of colleagues in the House of Representatives, the Senate, and the President. How might this requirement influence the member of Congress?

(The effort to seek compromises from several diverse groups may dilute the influence of one concentrated special interest.)

## Name________________________

# ACTIVITY 1
# GEORGE MASON WEALTH CREATOR

WE OFTEN ASSOCIATE ENTREPRENEURSHIP with leaders in business. However, people in public life also can be entrepreneurial in creating new organizations which permit new activities to succeed. Another characteristic of an entrepreneur is persistence or the willingness to see a project through to the end. This trait, as you will see, was especially characteristic of George Mason. While many individuals have good ideas, fewer have the energy or the gumption to stick with ideas over time.

Many historians have observed the remarkable success achieved under the U.S. Constitution. Very few substantive changes have been made over its 200 year history. One reason that the Constitution has endured so well is that it is structured to encourage compromise. According to economic historian Gerald Gunderson, this design for compromise was greatly influenced by George Mason, "entrepreneur of the Constitution."

George Mason (1725–1792) was born in Fairfax County, Virginia. He spent much of his life managing Gunston Hall, his family estate. Mason resisted many public offices that were offered to him, but his writings about government became very influential.

Mason drafted much of the Virginia state constitution and Virginia's Declaration of Rights. Both documents were very influential in the United States and in Europe. Thomas Jefferson drew on the Virginia Declaration of Rights when he wrote the Declaration of Independence. The Declaration of Rights later formed the basis of the U.S. Bill of Rights, which was added to the Constitution in 1791.

Mason understood that governments are run by humans whose good intentions sometimes lead to unintended and even unwanted results. This danger is especially likely to materialize in cases of government involvement in the economy. Citizens with special interests, for example, will place great pressure on political leaders in an effort to gain special economic favors, such as subsidies for products they produce or tariffs on foreign products that compete with products they produce. Such actions may help particular producers and workers, but the increase in prices resulting from such actions hurts all consumers of the product because they must pay the higher price.

Mason had a persistent interest in devising a pattern of government that would preserve individual freedoms yet permit government to perform essential operations. During the Constitutional Convention, he worked out the principle of dividing government into offsetting branches—executive, judicial, and legislative. This system of checks and balances would make it difficult for individuals to gain special economic favors through government action. Moreover, Mason worked for the explicit Constitutional recognition of individual rights. Mason labored to have a Bill of Rights included within the body of the U.S. Constitution. While he was unable to persuade his colleagues of the merit of his position on human rights, the eventual passage of the first 10 Amendments to the Constitution tends to affirm his position.

Mason, while a delegate to the Constitutional Convention, never signed the final document. He objected to the delegates' failure to include a Bill of Rights in the original document and to the "three–fifths" compromise on slavery in Article 1, Section 3. He believed the "three–fifths compromise" would reduce Virginia's power in the House of Representatives. This section eventually was superseded by the 13th Amendment, which abolished slavery, and by the 14th Amendment, which affirmed citizenship rights for all persons born in the United States, including former slaves. For his part, Mason believed in 1789 that slaves should be educated first and then set free.

## QUESTIONS FOR DISCUSSION

1. Why are entrepreneurs important to an economy?
2. What are some characteristics of entrepreneurs?
3. How did George Mason's ideas contribute to economic growth?

# ENTREPRENEURSHIP CASE STUDY: ADAM SMITH

## INTRODUCTION

***History*** Adam Smith (1723–1790) is generally regarded as the founder of modern economics. His book, *An Inquiry Into the Nature and Cause of the Wealth of Nations* (1776), was the first complete study describing how economies work. His ideas influenced many leaders at the time, including the writers of the U.S. Constitution.

***Economic History*** Successful economies create ways for the economy to change to meet new circumstances. Adam Smith's ideas encouraged leaders in government and business to limit the role of government in the economy and to expand competition and trade.

## CONCEPTS

Mercantilism
Market
Incentives
Trade
Specialization

## OBJECTIVES

◆ Make distinctions between the theory of mercantilism and the ideas espoused by Adam Smith, favoring a limited role for government in the economy.

◆ Analyze primary sources by referring to economic principles related to the role of government in the economy.

◆ Recognize that governments establish rules that influence economic behavior.

## LESSON DESCRIPTION

Students use statements from *The Wealth of Nations* as primary sources. They discuss distinctions between mercantilist economies and market economies.

Teachers who decide to impersonate Adam Smith will add fun and zest to the lesson.

## TIME REQUIRED

◆ One class period

## MATERIALS

One copy for each student of Activities 1 and 2.

You may wish to impersonate Adam Smith as part of this lesson. If so, you will need a pair of buckle shoes, a long topcoat, a ruffled white shirt, a white wig, and a tricorner hat. Smith was known to his contemporaries as being absent-minded. For example, he sometimes would become lost when going on walks near his home. Joking about your difficulty in finding the classroom and speaking in a Scottish brogue will add humor and interest to today's lesson.

## PROCEDURE

1. This lesson stresses the ideas of Adam Smith. You might wish to come to class in the costume of Adam Smith (see the *Materials* section in this lesson for suggestions).

2. Explain to the class that today many nations are moving quickly to establish market economies. Many current ideas about how markets work were first written by Adam Smith, author of *The Wealth of Nations* (1776). Since 1945, the global market economy has grown to involve about 800 million people, including the populations of Western Europe, Japan, the United States, Canada, and a few other nations. During the same time, however, about 80 percent of the world's people have lived under nonmarket economies, including those in most of the nations of Africa, the Middle East, the former Soviet Union, Central Europe, and Asia. With the demise of communism in the 1990s, most nations in Europe, Latin America, Africa, and Asia are moving toward reentering the world economy and developing market economies.

3. Just as many nations today are reforming their economies, U.S. citizens after the Revolution of 1776 had to decide what kind of an economy to establish. The writings of Adam Smith influenced their decisions.

4. Distribute Activity 1 to the class. After the students have read the introductory paragraphs, you may wish to read the primary source mate-

rial in a dramatic fashion, in the way Adam Smith might have read it. After students have completed the questions, lead a class discussion. *Ask:*

A. Who was Adam Smith? (Author of The *Wealth of Nations*, the first complete work on the role of government and the economy.)

B. What was mercantilism? (Mercantilism called for a government to be very active in the economy by providing monopolies, granting trade privileges, and offering bounties for the production of some goods.)

C. ***Primary Source 1***
What will happen to the wealth of a nation when its government tries to promote a particular "species" of industry? (When governments try to manage the economy directly, they reduce wealth rather than promote it. The economy is too complex for government to manage.)

D. Who should make economic decisions? (Individuals, so long as they do not violate the rights of others, should be free to make their own economic decisions.)

E. ***Primary Source 2***
State in your own words the three roles of government which Smith prescribes. Give an example of each.
(*Protection*: government should provide for defense. The United States' fighting the Barbary pirates is an example of defense.
*Justice*: government should protect the rights of individuals. The role of the government in enforcing civil rights is an example.
*Public Sector*: government should provide certain public goods and services which it may not be in the interest of individuals to produce in sufficient quantities. National defense and lighthouses in harbors are examples.)

F. ***Primary Source 3***
Why did Smith believe that nations should trade? (By specializing in production, nations will produce more goods and services, increasing the nation's wealth.)

G. Give a current example of how trade between two nations can make individuals better off in both countries. (Americans today have more choices in consumer goods than they would have if trade were not permitted. Included are cars, electronics, textiles, and much more. Similarly, Americans today have more jobs and income because they export computers, aircraft, industrial machinery, and much more. Individuals in other countries who sell products to the United States and consumers in other nations who buy U.S. products are also better off as a result.)

## CLOSURE

Tell the class that a market economy favors a limited government role and a nonmarket economy favors an active government role. Distribute Activity 2. Invite the class to discuss how each point is an example either of 20th century market or nonmarket behavior.

1. Clear cola: Market
2. Japanese quotas: Nonmarket
3. Dutch trucker: Nonmarket
4. EC truckers: Market
5. Moscow steel mills: Nonmarket
6. Asian dictator: Nonmarket
7. Regulation of milk prices: Nonmarket
8. Rice restrictions: Nonmarket
9. Jeep Grand Cherokee: Market

Name________________________

# ACTIVITY 1
# ADAM SMITH

ADAM SMITH WAS BORN IN KIRKCALDY, Scotland, in 1723. He studied at the University of Glasgow and at Oxford. He spent 10 years writing *The Wealth of Nations.* Published in 1776, it was the first complete work on the role of government and the economy.

Through the establishment of a parliamentary government, England had for some time been developing a system of individual property rights. However, government still played an active, mercantilist role in the British economy. Smith's ideas were an assault on the theory of economic growth called mercantilism.

Mercantilism was a nationalistic theory aimed at promoting the welfare of one nation over all others. This theory called for government to be actively involved in the nation's economy through such activities as granting monopolies to certain companies or granting exclusive trading rights. Bounties, or subsidies, were granted to encourage the production of some goods over others. So, for example, England offered bounties for the production of indigo, naval stores, silk, and lumber to producers in the American colonies. Smith argued that mercantilism wasted resources and gave unearned privileges to particular groups in society. He argued that economic life is far too complex for governments—no matter how enlightened—to manage efficiently. Instead, he observed that the basis of economic well-being was to be found in individual liberty. Individuals, when able to earn a profit from their transactions, will produce the goods and services that others are willing to buy. When buyers and sellers meet in the market, the pattern of exchange that develops will result in social harmony and economic well-being.

Moreover, individuals making decisions about production will tend to specialize and trade with others. Goods produced through increased specialization and trade will result in increased wealth for both parties.

## PRIMARY SOURCE 1

Read the following statement from *The Wealth of Nations.* It illustrates Smith's ideas about the government's role in the economy.

*Every system which endeavors . . . to draw towards a particular species of industry a greater share of the capital of the society than what would naturally go to it, is in reality subversive of the great purpose which it means to promote. It retards, instead of accelerating, the progress of the society towards real wealth and greatness; and diminishes instead of increasing, the real value of annual produce of its land and labour.*

*All systems of preference or of restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way and to bring both his industry and capital into competition with any other man or order of men.*

According to Adam Smith:

1. What will happen to the wealth of a nation when it tries to promote a particular "species" of industry? Why?

2. Who should make economic decisions?

## PRIMARY SOURCE 2

While Smith did not believe that government should promote some kinds of economic activity over others, he did recognize the importance of government actions. Read the following excerpt on the role of government in the society.

*The sovereign is completely discharged from . . . the duty of superintending the industry of private people and of directing it towards employments most suitable to the interests of the society. According to the system of natural liberty, the sovereign has only three duties to attend to . . . first, the duty of protecting the society from violence and invasion of other*

From *United States History: Eyes on the Economy,* ©National Council on Economic Education, New York, N.Y.

*independent societies; secondly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member in it . . . and thirdly, the duty of erecting and maintaining certain publick [sic] works and certain publick [sic] institutions which it can never be for the interest of any individual . . . to erect and maintain . . . .*

1. State in your own words Smith's three roles of government. Give an example of each.

## PRIMARY SOURCE 3

Smith believed that governments should establish rules that would promote specialization and free trade among individuals and among nations. Read this final excerpt from *The Wealth of Nations.*

*The natural advantages which one country has over another in producing particular commodities, are sometimes so great, that it is acknowledged by all the world to be in vain to struggle with them. By means of glasses, hot–beds, and hot–walls, very good grapes can be raised in Scotland, and very good wine, too, can be made of them, at about thirty times the expense for which at least as good can be bought from foreign countries. Would it be reasonable law to prohibit the importation of all foreign wines, merely to encourage the making of claret and burgundy in Scotland?*

1. Why did Smith believe that nations should trade freely?

2. Give a current example of how trade between two nations offers more choices to consumers.

From *United States History: Eyes on the Economy,* ©National Council on Economic Education, New York, N.Y.

Name____________________

# ACTIVITY 2
# MARKET OR NONMARKET

***Adam Smith pointed out the contrasts between market and nonmarket economies in 1776. What are more recent examples? Here is a "quiz." Identify each statement as an example of nonmarket (NM) or market (M) actions. Be prepared to explain your responses.***

___ 1. Officials at PepsiCo, knowing that cola is not inherently dark, think that some consumers would like to purchase a clear cola drink.

___ 2. U.S. trade officials, at a cost of billions to American consumers, negotiated voluntary trade quotas so fewer Japanese cars can be sold in the United States.

___ 3. A Dutch trucker can haul freight from Amsterdam to Frankfurt, but trade rules prevent her from picking up a load for delivery from Frankfurt to Bonn.

___ 4. Karel Vam Miert, Transport Commissioner of the European Community (EC), wishes to remove rules on trucking to permit all EC truckers to have equal access to all EC nations.

___ 5. Government leaders in Moscow invested public money heavily in large steel mills in the 1930s because they thought that this would help the nation to industrialize.

___ 6. An Asian dictator, in return for political support, gave the nation's rubber plantations to his friends.

___ 7. U.S. government regulation of milk prices costs U.S. taxpayers and consumers $1.7 billion every year.

___ 8. A priest in Tokyo was arrested for giving homeless people rice imported from the U.S. Trade restrictions make rice in Japan and South Korea very expensive to consumers.

___ 9. Chrysler Corporation developed the Jeep Grand Cherokee to compete with Ford Motor Company's Explorer.

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

# SAMPLE TEST ITEMS

## LESSON 1

1. Which of the following were economic problems after the American Revolution?

A. National debt
B. Inability of the central government to levy and collect taxes
C. Danger of tariff battles between states
✓D. All of these

2. Use economic reasoning to explain why the failure to repay war debts—even to speculators—would have hurt the long-term prospects of the American economy.

*Possible answer:* People lend money in the expectation of repayment with interest. The confidence of lenders in the future of the United States would have been greatly reduced if debts had not been repaid. Future borrowing and investing to stimulate economic growth would have been discouraged.

## LESSON 2

1. Which part of the U.S. Constitution prevents the government from illegally taking private property?

✓A. Fifth Amendment
B. Contract Clause
C. Commerce Clause
D. Copyright Clause

2. Which part of the U.S. Constitution protects the property rights of inventors and authors?

A. Fifth Amendment
B. Contract Clause
C. Treaty Clause
✓D. Copyright Clause

3. Use economic reasoning to explain why the U.S. Constitution is regarded as an economic success.

*Possible answer:* The U.S. Constitution established the rules for the U.S. economic system. Rules determine the incentives which influence people's choices. The Constitution established rules which encouraged productive behavior by protecting private property rights and enforcing contracts. The Copyright clause affirmed the property rights of people who created new ideas and products. The Commerce clause prevented states from taxing each other's goods.

## LESSON 3

1. Which of the following ideas did George Mason promote for inclusion in the U.S. Constitution?

✓A. Recognition of individual rights.
B. Expansion of government activity in the economy.
C. Expansion of the power for the executive branch over the judicial and legislative.
D. Recognition of the need to protect infant industry.

2. George Mason is known for writing the

A. Declaration of Independence.
B. Treaty of Ghent.
✓C. Virginia Declaration of Rights.
D. Compromise of 1789.

## LESSON 4

1. Adam Smith argued that the basis of economic well-being was to be found in

✓A. Individual economic liberty.
B. Government economic actions.
C. Protection of noncompetitive businesses.
D. Industrial progress.

2. Explain the three roles of government proposed by Adam Smith in The Wealth of Nations.

*Possible answer: Protection:* government should provide for national defense. *Justice:* government should protect individual rights. *Public Goods:* Government should provide certain goods and services which it may not be in the interest of individuals to produce.

3. Mercantilism is best associated with

A. Free trade and competition.
✓B. Trade monopolies and subsidies.
C. Restrictions on religious practices.
D. The financial services industry.

# A NEW NATION

UNIT 6 ADDRESSES SOME KEY ASPECTS OF U.S. economic growth in the period before the Civil War. The unit begins by stressing the importance of consumers' choices. It goes on to emphasize the importance of improving productivity and increasing investment as means of attaining economic growth.

Lesson 1 uses a brief history of fashion to illustrate that consumers' choices are the key to understanding economic behavior in the past. Students are invited to solve a mystery regarding why people in the past wore uncomfortable clothing like neckties and corsets.

Lesson 2 explains how Eli Whitney's cotton gin increased productivity and made growing cotton more profitable. It led the South to specialize in cotton production.

Lesson 3 explains how President Thomas Jefferson's embargo of 1807 encouraged American businesses to open textile mills that otherwise would have had difficulty competing with mills in Great Britain.

Lesson 4 focuses on a mystery: How do capital goods and economies of scale reduce costs for consumers and help an economy to achieve growth?

Lesson 5 illustrates how improvements in transportation (such as turnpikes, steamboats, canals, and railroads) reduced the cost of transporting products to market, in turn bringing about reduced prices for consumers.

Lesson 6 uses a case study on investing to illustrate how many Americans grew prosperous early in the nineteenth century by investing in their land, labor, or capital.

Lesson 7 is an entrepreneurship case study on Samuel Slater. It illustrates how successful economies encourage efficiency. Through building labor-saving devices, Samuel Slater was able to help develop a new sector in the U.S. economy.

# THE TALE OF THE CORSET AND THE NECKTIE

## INTRODUCTION

***History*** Throughout U.S. history, fashion has influenced the clothes people chose to wear. European fashion was important to people in the early days of the Republic. Later, the fashion found in Sears, Roebuck catalogs influenced consumers.

***Mystery*** Americans are known for their practicality and willingness to work hard in what are sometimes cramped and dirty environments. Yet, whenever they could, many Americans have chosen to wear neckties, corsets, and other seemingly uncomfortable items of clothing which served no practical need. Why?

***Reasoning*** People choose what to wear each day. Their choices are influenced by their attitudes, work or social requirements, and the attitudes of others. At times, people will choose to wear uncomfortable clothes to meet social expectations for appropriate dress. The corset and the necktie are two examples of fashionable, uncomfortable clothing from the past. (The necktie, of course, is still with us, and the men and women who wear neckties probably would say they are still uncomfortable.)

## CONCEPTS

Cost
Consumer
Choice
Voluntary Exchange

## OBJECTIVES

♦ Explain how people's choices of clothing in the past, and the present, are influenced by circumstances, price, income levels, and social rules (written and unwritten).

♦ Use the *Handy Dandy Guide (HDG)* statements to analyze a reading on the well-dressed American.

## LESSON DESCRIPTION

Students will view clothing worn by men and women throughout history and explain how the making of fashion choices is behavior consistent with the *HDG*.

## TIME REQUIRED

♦ One class period

## MATERIALS

One transparency each of Visuals 1 and 2.

One copy for each student of Activity 1.

You may wish to have an old school yearbook or photograph collection to illustrate clothing styles of the past. You may also wish to have a corset and a necktie on hand to use with this lesson's mystery.

## PROCEDURE

1. Explain to the class that the manufacturing of clothing has been an important source of income for many nations around the world. The United States today exports and imports billions of dollars worth of textile products every year. Today the students will study the behavior of people who caused much of this trading behavior in the past.

2. Lead a class discussion by posing the following questions.

A. What clothing does the fashionable high school student wear to school these days? (Accept a variety of responses.)

B. Do your clothes look like the clothes your parents wore in high school? Why or why not? (If the teacher can do so, he or she should have some old high school yearbooks on hand so that students can see what their parents wore to school.) (Students will likely suggest that their parents' clothes did not look right.)

C. Are your clothes always comfortable? Do they protect you from harsh weather? (Probably not. Some things *not* worn probably *would* protect against harsh weather.)

D. Why do you suppose students dress as they do? (Comfort, distinction, approval, price, availability in stores, current fads, and so on.)

3. Encourage the students to relate their explanations to the *HDG* principles for economic reasoning. *Ask:*

A. Do people choose the fashions they prefer? (Individual choice is usually an important factor in selection of clothing.)

B. Why are some fashions favored over others? What incentives influence fashion choices? (Price of clothing is an important consideration. While more expensive clothes may be preferred, high prices discourage some people from purchasing them. Nonmonetary considerations might include the clothing's attractiveness to other people and the wearer's interest in appearing up-to-date or stylish. Moreover, fashion can be a form of expression, creativity, and fun.)

C. What rules influence fashion? (Parents, schools, and employers often place some restrictions on dress. There also may be informal rules about dress—some high school students, for example, refuse to wear hats and gloves no matter how cold the weather. Others will wear only certain brands of trousers, shoes, and so on.)

4. Ask a few students to try on some items of clothing not worn by members of their age group—perhaps a corset and a necktie. Make sure you tighten the ties on students who put them on. Observe how difficult it is to put on a corset—never mind wearing one all day. Ask the students if they would wear these items every day. Why or why not? Would they wear them if it were fashionable?

5. Display the pictures of clothing from Visual 1. Next, pose an economic mystery to the class by displaying Visual 2. Ask the students to speculate about why people who work hard every day would choose to wear clothes like neckties and corsets which may be physically uncomfortable. Explain that *Handy Dandy Guide* reasoning will help us understand such behavior.

6. Distribute Activity 1. It describes certain modes of clothing and tells why these fashions were once popular. Discuss the questions with the class.

A. Why didn't most colonists in North America wear high fashion, European-style clothes in the 1660s and 1700s? (All choices have a cost. In this case, there was a high opportunity cost for purchasing fashionable clothes. People often chose to spend their money on other things.)

B. Why didn't clothing styles change more frequently throughout the 1600s and 1700s? (Without modern technology, the costs of change were high.)

C. Why did clothing fashions begin to change in the late 1800s, with more Americans choosing to wear fashionable items? (Genteel, fashionable clothing became less costly because of mass production. Also, social expectations—informal rules—were changing. People wanted to meet new norms in dressing properly for attendance at church, town meetings, parties, and so on.)

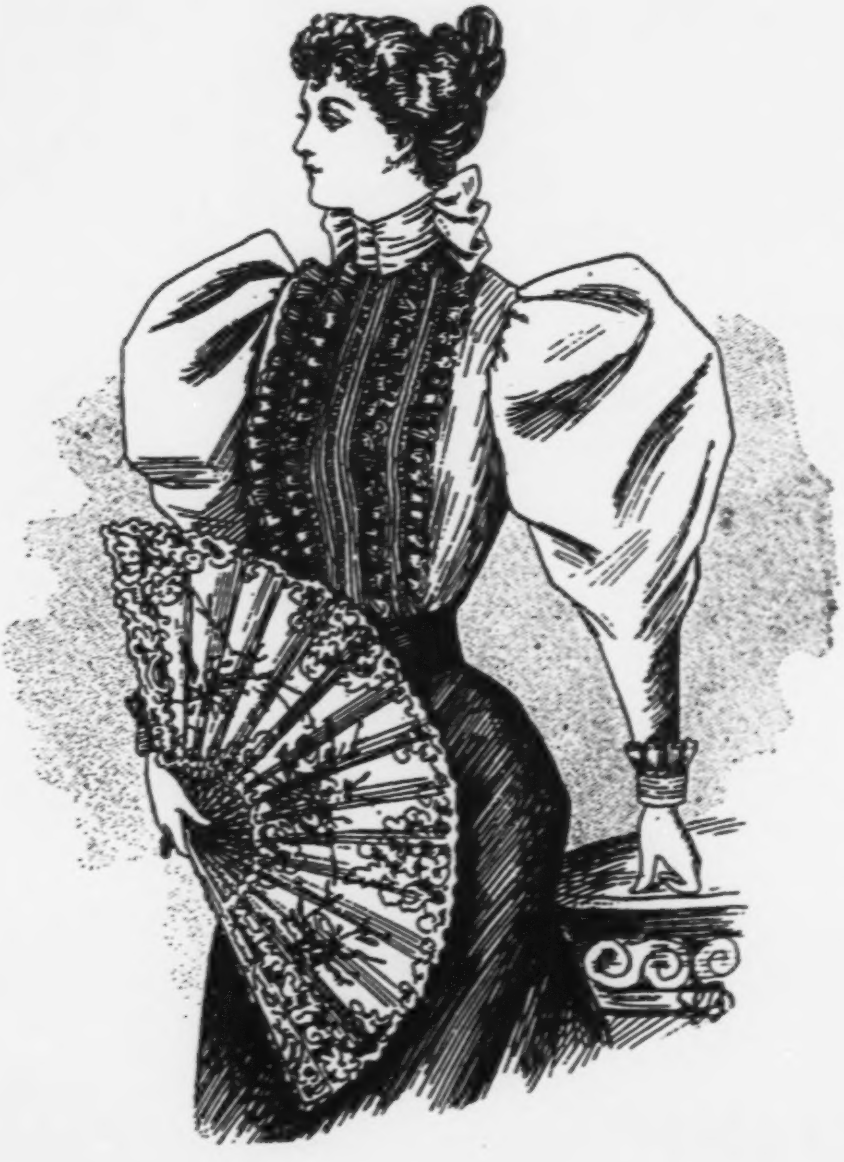
D. Why did people wear fashions that were uncomfortable and subject to criticism? (People respond to incentives in predictable ways. Some people gained pleasure and advantage from wearing certain fashions. The benefits for them must have outweighed the costs of discomfort and criticism; otherwise, they would have chosen to discontinue the practice. Also, prices for factory-made clothing had fallen as a result of mass production. High fashion, or clothing that imitates it, was no longer as costly as it was in the 1700s.)

E. Do you think people will continue to wear uncomfortable clothing that is fashionable? (Yes. As long as they benefit enough from the fashionable look to compensate for the physical discomfort it may entail, the behavior will continue.)

## CLOSURE

Display Visual 2 again. Ask students to use *HDG* reasoning to review the solution to this mystery. (The benefits of wearing uncomfortable clothing—appearing up-to-date at relatively low prices—outweigh the costs of discomfort.)

# VISUAL 1
# THE HEIGHT OF FASHION



From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

# VISUAL 2

# *ECONOMIC MYSTERY* THE CASE OF THE CORSET AND NECKTIE

Americans are known for their practicality and their willingness to work hard. Our ancestors put in long hours and faced uncertainty and stress in their jobs. Moreover, many people worked in hot, rocky fields, in cramped and poorly ventilated offices, and in dirty factories. Yet, whenever they could, many of these people chose to wear neckties, corsets, and other clothing that may have been uncomfortable and that served no obvious practical need.

Did our ancestors like to suffer? Why would they wear uncomfortable, impractical clothing?

# Name________________

# ACTIVITY 1

# THE WELL–DRESSED AMERICAN: FASHION CHANGES AND CHOICES

***Directions: As you read the following information, try to understand the actions described by referring to the following principles from the Handy Dandy Guide (HDG). For example:***

***1. People choose.***

***2. People's choices involve costs.***

***3. People respond to incentives in predictable ways.***

***4. People create economic systems that influence individual choices and incentives.***

## FASHION IN THE 1600s AND 1700s

In the earliest years of American history, few men and women worried about fashion choices. Colonists in the 1600s found it difficult to survive. The most important contributions clothing could make were to keep the body warm, protected, and able to work. Clothing also had to last. Replacements might come across the ocean from Europe or be hand–made from raw materials like sheep's wool or cotton. Imagine how much clothing would be in your closet if each piece of clothing required you to shear a sheep, spin wool into yarn, weave yarn into fabric, and then hand–sew (by candlelight!) every stitch. The real cost or *opportunity cost* of clothing was high. It might include crops not grown, hunting not done, food not gathered, meals not cooked.

Only the wealthiest American colonists would purchase new clothing often, and they did follow the fashions set in Europe in the 1600s and 1700s. But when the colonists rebelled and created their own new country, European fashions became unpopular. In fact, many wealthy colonists chose to wear homemade clothing as a sign of their new commitment to independence from England.

After the American Revolution, trade resumed with Europe. Since England had begun to produce clothing in factories, some of it began to appear in the United States. But in the early 1800s, factory–made clothing was not popular among those Americans who had wealth and status. Instead, factory–produced clothing, known as "slops," was worn mostly by sailors, laborers, immigrants, and African–American slaves. A later example of factory made clothing for laborers is Levis—Levi Strauss's sturdy denim jeans, which were commonly worn by prospectors and farmers in the West after the California gold rush.

## HIGH FASHION BECOMES LESS EXPENSIVE

High fashion clothing often was impractical and uncomfortable to wear. But a middle–class or poor American woman who wanted to look wealthy might be willing to wear a tight, whalebone corset like those worn by wealthy women. Similarly, a farmer would find it impossible to wear a beaver felt hat while plowing his fields, but he often bought one to accompany a tight–fitting, starched collar and a necktie for use on other occasions. Looking around the city park—even the ballpark—on Sunday afternoons one might find it hard to tell the rich family from the poor. Americans hoped to earn more and get ahead. Dressing like wealthy members of the community probably helped people to feel successful even if they were not wealthy.

By the 20th century, inventions like the sewing machine and the development of large factories meant that most Americans could choose from a variety of fashions and clothing items at lower prices. Average income had increased, causing clothing prices to fall relative to income. Many new immigrants were especially attracted to work in the garment industries, including Eastern European Jews who had been tailors.

## CRITICS

Not everyone liked the consumers' choices in purchasing fashionable clothing. Thorstein Veblen, an American sociologist and economist, was an outspoken critic of this practice. Writing at the beginning of the 20th century, he argued that fancy fashions like the corset or the elegant suit were wasteful. Wealthy Americans, he said, wore silly clothes that served only one purpose: to show that the wearer had a lot of money and did not have to do any physical labor. Veblen was afraid that Americans of all classes would spend their energies on looking fancy, and not concentrate on the hard work necessary to keep the United States strong.

## THE UNCOMFORTABLE CLOTHES MYSTERY

Obviously fashions have changed a great deal since the first English colonists arrived in the 1600s; think about the reaction a Pilgrim might have to a bikini of the sort worn by some men and women in our time. Other types of clothing are remarkably unchanged, however; successful men in the 1800s often wore suits and ties similar to those worn by many men today. How would the *HDG* principles of economic reasoning help you explain why people then and now would wear uncomfortable but fashionable clothing? To see how, please respond to the following questions.

## QUESTIONS FOR DISCUSSION

1. Why didn't most colonists in North America wear high fashion, European–style clothes in the 1600s and 1700s?

2. Why didn't clothing styles change more frequently throughout the 1600s and 1700s?

3. Why did fashions begin to change in the late 1800s, with more Americans choosing to wear high fashion items?

4. Why did people wear fashions that were uncomfortable and subject to criticism?

5. Do you think people will continue to wear uncomfortable clothing that is fashionable?

# PRODUCTIVITY RAISES OUTPUT

## INTRODUCTION

***History*** Eli Whitney (1765–1825) was a young Yale graduate when Catherine Greene invited him to visit her plantation. During the visit he observed the problem of picking seed from cotton. Eventually, he devised the cotton gin.

***Mystery*** From the end of the American Revolution to the beginning of the Civil War, the U.S. population grew rapidly. It is not much of a surprise that, with more people, the economy would grow. However, the economy grew even faster than the population did. Why?

***Economic History*** In a market economy, profit is an incentive, encouraging people to find ways to reduce their costs of production. Profits are what remain after all costs are paid. If costs decrease and revenues hold constant, more profit remains. One way to decrease costs is to increase productivity. Increasing productivity permits producers to reduce prices; reduced prices encourage trade and thus gains for consumers and producers. Eli Whitney's cotton gin (and his use of interchangeable parts and division of labor) increased productivity and helped raise the American standard of living. The cotton gin led the South to specialize in cotton production and also made cotton the single largest American export before the Civil War.

## CONCEPTS

Productivity
Profit
Standard of Living
Supply and Demand
Interchangeable Parts
Division of Labor
Specialization

## OBJECTIVES

- ♦ Analyze the relationship between productivity and the total amount of goods or services available to society.
- ♦ Analyze the relationship of profit to productivity.
- ♦ Identify means of increasing productivity.
- ♦ Analyze the relationship of capital to productivity.

## LESSON DESCRIPTION

Students discuss an economic mystery. A brief simulation illustrates the concept of productivity. Ways of increasing productivity are discussed. Historical examples of increased productivity are given.

## TIME REQUIRED

- ♦ One class period

## MATERIALS

One transparency each of Visuals 1, 2, 3, 4, and 5.

## PROCEDURE

1. Explain that the purpose of this lesson is to learn why the American economy grew after the Revolution. Display Visual 1 and discuss the mystery. Encourage students to speculate on possible explanations.

2. Make clear to the class that economic growth is measured by the production of goods and services per capita. The quantity of goods and services produced must increase faster than the population increases for the standard of living of the average person to rise. One way for the standard of living to rise is to increase productivity.

3. Explain that *productivity* means the amount of a good or a service that can be produced from a given amount of productive resources. Explain that gains from productivity are the key to explaining growth of the U.S. economy in the early 1800s.

4. Use the following simulation to illustrate the concepts of productivity and productivity increases.

A. Draw four large circles spaced horizontally across the chalkboard. Select one student to be a worker. Give that student a piece of chalk; tell him or her to make as many marks in the four circles as possible in a period of ten seconds, with the constraint that the student must make one mark in each of the four circles before starting a second round of marks. In other words, an equal number of marks must be made in each circle during the 10-second period. When the student has finished, calculate the unit labor cost by dividing the number of marks into a hypothetical wage of $5.00. For example, if the student makes 20 marks, the unit labor cost of each mark is 25 cents.

B. Now have four other students come to the board and tell them that they will be performing the same task, but that you will arrange for them to do their work more productively. Assign each of these four students to an individual circle, telling him or her to make as many marks as possible in that circle in a 10-second period. Because these workers do not have to move back and forth, they will average two or three times as many marks as the first student made. Calculate the unit labor cost for each of the four workers by dividing the number of marks that each individual produces into $5.00.

C. Tell students that *productivity* can be defined as the output per worker in a given time period, and that productivity increased with the second group of workers because work was organized more efficiently. Because the unit labor cost for each mark went down when productivity increased, it would be possible to sell marks at a lower price than before and still make a good profit. This clarifies a key point in U.S. history: Decreases in price levels do not indicate a decline in our standard of living when they are accompanied by large increases in productivity such as occurred in the early 1800s. Point out that other examples of productivity improvement have occurred in the production of food, clothing, and computers and have led to an increased standard of living. When production costs come down, prices to consumers are almost always reduced as producers compete to seek new consumers.

5. Ask students to imagine some other ways in which productivity could be increased in mark-making. Some of the suggestions they make might include giving each worker a second piece of chalk or a tool that would hold several pieces of chalk (adding physical capital), paying the workers for each mark produced (use of incentives), sending workers to college to get a degree in chalk-marking (worker training and education = human capital), or doing research on better ways to make chalk marks. In each case, point out that people would pursue such measures because they expected to be rewarded financially or in some other way.

6. Tell students that the late 18th and early 19th centuries offer many examples of productivity increases that stimulated economic growth. One good example can be found in the career of Eli Whitney.

A. Eli Whitney (1765-1825) was a young Yale graduate when he went to Georgia in 1792 as a guest of Catherine Greene, widow of Revolutionary War General Nathanael Greene. Whitney became friends with several planters and listened to their complaints about the unprofitability of raising cotton. At that time, commercial cotton growing was confined to the coastal areas of Georgia and the Carolinas. Planters there raised Sea Island cotton, a variety with long, soft fibers that could easily be separated from the seeds of the cotton. Other varieties of cotton could be grown in the interior of the South, but it took one slave a full day to remove the seeds from a single pound of cotton.

B. Whitney knew that developing a machine to separate seeds from cotton would allow planters to produce more cotton at less cost per unit. Moreover, gaining a patent on such a device would reward the inventor handsomely.

C. Display Visual 2. Explain that Whitney devised the cotton gin, a wooden box which contained a cylinder with metal spikes that separated the raw cotton from the seeds so efficiently that a single worker could clean about 50 pounds of cotton per day. The use of the cotton gin quickly spread throughout the South, and "King Cotton" became the South's most important crop.

7. Display Visual 3. Explain that meanwhile, in England, the production of cheap cotton cloth had become the leading industry, stimulated by such inventions as the flying shuttle (1733), the spinning jenny (1764), the water frame (1769), the spinning mule (1779), and the mechanical loom (1785). Competition among textile producers drove prices down, which greatly expanded the market for cotton cloth. By 1810, the resulting British demand had made cotton the most valuable export of the United States.

8. Display Visual 4. Use supply and demand curves to illustrate how the increased supply of cotton reduced the price and increased consumption. Note the change in supply from $S_1$ to $S_2$.

9. Display Visual 5. Explain that the reduction in the costs of producing clean cotton had powerful effects on the American economy. Large planters and small farmers spread westward into western Georgia, Mississippi, Alabama, and other Southern states in search of new land on which to grow cotton. They pressured the federal government into removing the Cherokee, Choctaw, Creek and Chickasaw peoples from their traditional lands in the South to a newly formed "Indian Territory" (today Oklahoma) beyond the Mississippi. As new land went into production, the value of slave workers rose.

10. Explain that cheap raw cotton also stimulated the textile industry in New England. Samuel Slater established the first successful cotton mill in Rhode Island in 1790. The New England textile industry then grew rapidly, especially after Jefferson's Embargo of 1807 and the War of 1812 cut off the supply of English textiles to the American market.

11. What happened to Eli Whitney, the inventor of the cotton gin? He patented his gin, but it was so easy to copy that others began to manufacture and sell imitation cotton gins. Whitney spent most of the profits he made from his gin in unsuccessful lawsuits to defend his patent. In 1798 he built a factory in Connecticut to manufacture muskets. He built machinery that could make interchangeable musket parts—that is, each part of the musket was made to such precise measurements that muskets could be assembled by a group of men, each adding one part to the musket and passing it on to the next worker—a simple form of assembly line production. Whitney's use of interchangeable parts and division of labor illustrate another way of increasing productivity—rearranging the work process so that more muskets could be produced without increasing labor hours.

## CLOSURE

Explain that a more precise definition of *productivity* is the amount of output from each unit of input. For example, agricultural productivity increases when output per acre of farmland increases. Ask the students to give several examples of how output per acre might be increased. Possible answers might include improved farm machinery, new ways of farming (crop rotation), or the use of fertilizers, weed killers, and so on.

Remind the class that the *productivity* simulation at the beginning of the lesson showed that the overall standard of living can increase even while the unit cost of labor is decreasing. The gain in productivity reduces costs to producers and consumers. This increase in efficiency improves the overall standard of living. Also, explain forces influencing productivity are still at work in today's economy. Most noteworthy are the changes in the computer industry.

## VISUAL 1

# HOW CAN AN ECONOMY GROW AT WARP SPEED?

## *AN ECONOMIC MYSTERY*

From the end of the American Revolution to the beginning of the Civil War, the population of the United States grew from approximately 4 million to 32 million people.

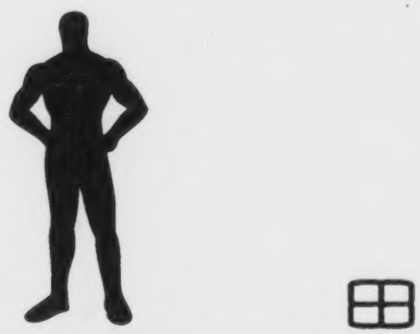
It is not much of a surprise that with more people able to work at making more things, the economy would grow. And it did.

However, the puzzling thing is that the economy grew faster than the population did. The standard of living of the average American in 1860 was double what it had been at the end of the Revolution. Per capita income rose from about $70 in the 1770s to $135 in 1860 (measured in 1840 prices).

How can an economy grow faster than the population does?

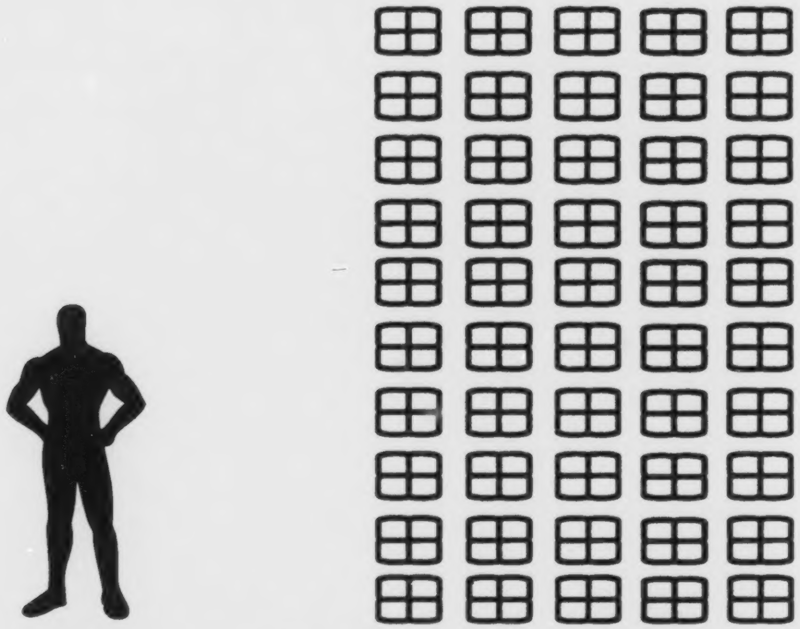
# VISUAL 2

## BEFORE THE COTTON GIN



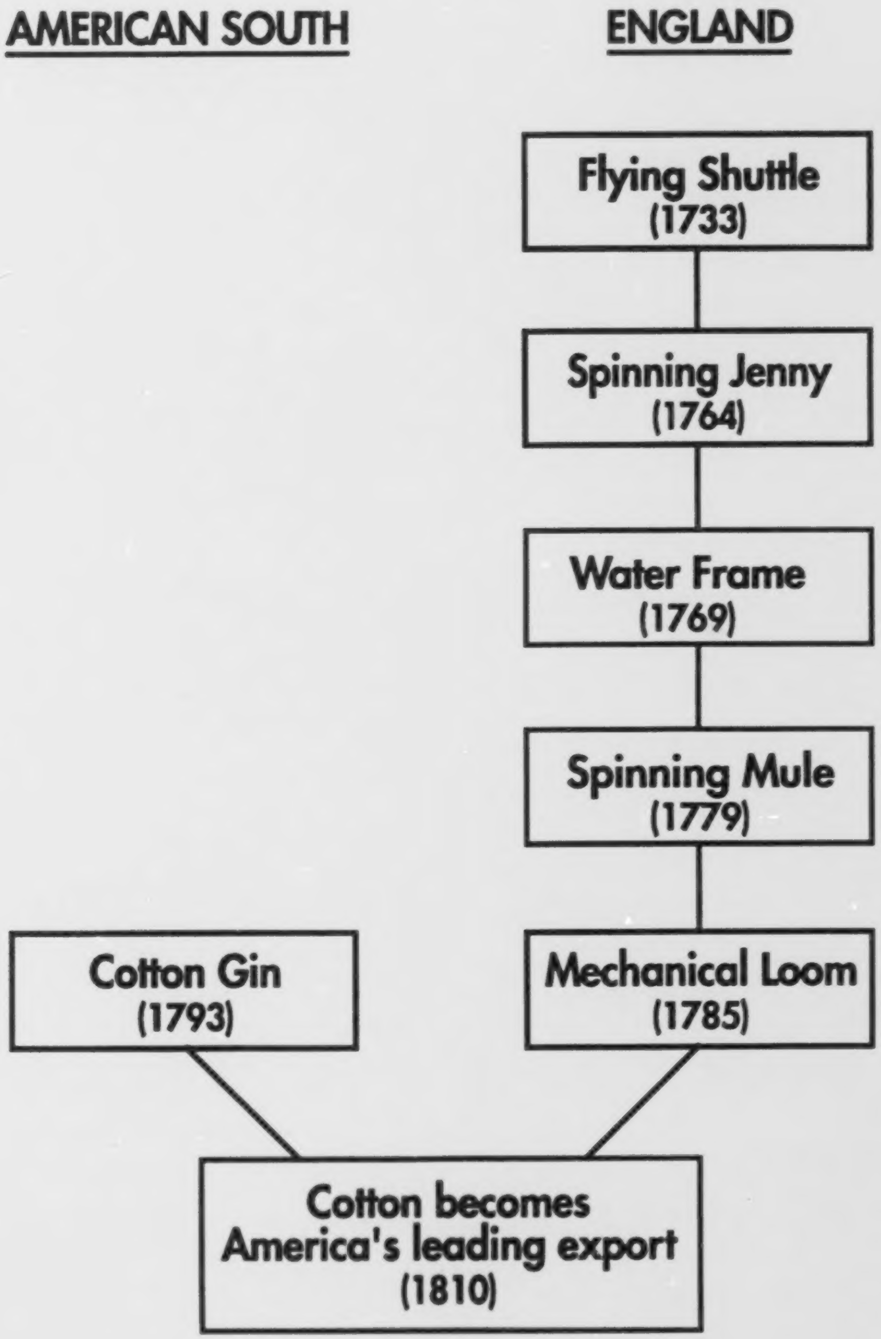
**1 Man = 1 Pound of Clean Cotton**

## AFTER THE COTTON GIN



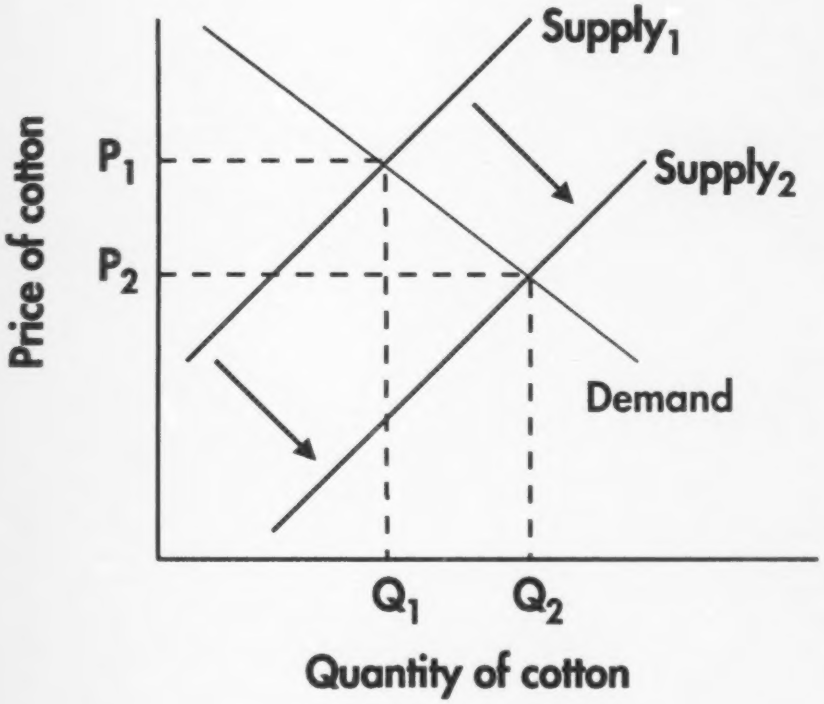
**1 Man = 50 Pounds of Clean Cotton**

# VISUAL 3


AMERICAN SOUTH
ENGLAND
Flying Shuttle (1733)
Spinning Jenny (1764)
Water Frame (1769)
Spinning Mule (1779)
Cotton Gin (1793)
Mechanical Loom (1785)
Cotton becomes America's leading export (1810)

# VISUAL 4

# INCREASING THE SUPPLY OF COTTON



# VISUAL 5

**Cotton becomes America's leading export (1810)**

## Southern States

Increased settlement of southern interior

Increased demand for slave labor

Led to removal of Native Americans

## New England

Development of the New England textile industry

# LOWELL WORKERS AND PRODUCERS RESPOND TO INCENTIVES

## INTRODUCTION

***History*** The Industrial Revolution was brought about by development of the factory system. This system displaced manufacturing carried on in shops and households.

***Mystery*** Why would young women give up life on the farm in exchange for long hours working in a factory at relatively low wages?

***Reasoning*** President Jefferson's embargo of 1807 presented new incentives to American businesses to open textile mills that otherwise would have had difficulty competing with mills in Great Britain. The factory system, as exemplified by the textile mills of Lowell, Massachusetts, increased productivity and increased income for its workers. Most of these workers were farm girls who often felt isolated. They had few opportunities for education and to meet others. Large families often had difficulty supporting all their children. In this context, the gains of factory work for many women outweighed the costs.

## OBJECTIVES

♦ Identify the unintended consequences of the embargo of 1807.

♦ Analyze the relationships between division of labor, productivity, and worker incomes.

♦ Recognize that increased supply and increased competition drive down prices for consumers.

## LESSON DESCRIPTION

This lesson includes class discussion of a handout on the Boston Manufacturing Company and the examination of primary source materials taken from the contemporary writings of female workers in textile mills.

## TIME REQUIRED

♦ One class period

## MATERIALS

One transparency each of Visuals 1 and 2.

One copy for each student of Activity 1 and Activity 2.

## PROCEDURE

1. Explain to the class that this lesson highlights the dynamic nature of the young American economy. Business leaders and workers responded quickly when economic opportunities were presented. They were sensitive to new incentives. However, occasionally these incentives were artificial in the sense that they were brought about by protection from competition.

2. Distribute Activity 1. Alert students to the questions for discussion at the end of Activity 1. After they have completed the questions, *ask:*

A. Explain how Jefferson's embargo hurt the U.S. economy. (The embargo caused a severe drop in trade. Textiles imported from Britain became more expensive for American consumers.)

B. Display Visual 1 to illustrate how Jefferson's embargo would reduce supply from $S_1$ to $S_2$ and cause prices of textiles to increase.

C. How did Francis Cabot Lowell take advantage of higher textile prices caused by the embargo? (Lowell saw an opportunity for profit from the higher textile prices that resulted from Jefferson's embargo. Based on his extensive knowledge of textile manufacturing, he established the Boston Manufacturing Company.)

D. Explain how Lowell took advantage of division of labor. (Division of labor meant that each worker oversaw the operation of one or two machines. The result was to make factory workers more productive than workers at home.)

E. Why did he recruit young farm women to work in the factory? (Most men preferred farming their own acres to working for an employer.)

F. Why did the young women choose to work in the factory? (Young farm women had fewer options available to them. The *opportunity cost* they paid for leaving the farm was low. Factory work appeared to be an attractive alternative.)

3. Develop further the reasons why these women chose to work in factories. Point out that many might consider it puzzling that workers would voluntarily work such long hours for relatively low wages. Ask the students to infer why girls voluntarily left their families to work in the mills at Lowell or other New England factories. What incentives or rewards might be gained? List their ideas on the chalkboard.

4. Distribute Activity 2 to the class. Ask the students to use these firsthand accounts as a source of reasons why these women came to work in the factories. (Large families often could not support their daughters; the opportunities for education were greater in the mill towns; and in the towns there were social opportunities for young women to associate with others of their age and to meet young men.)

5. Point out that the employment of the young women in the mills was an example of voluntary exchange that benefited both employer and the employees. The young women received not only their wages but also social and educational opportunities. Lowell and his stockholders received relatively low cost labor whose costs were lower than the revenues they produced.

6. Explain that conditions changed at Lowell when the embargo ended and trade was re-established with Britain. New England factories struggled under the renewed competition. As the supply of textiles increased when products from Britain became available again, profits fell. Mill owners responded by speeding up production and reducing wages. Loom operators who previously handled two looms now handled three or four. In 1834, wages at the Lowell mill were cut 15 percent. When wages were cut, the girls walked out of the mill in protest. Leaders of the "turnout" were fired. Mill owners began to substitute immigrants for young women from the farms. The female dormitories and the Sunday schools disappeared from the mill towns.

## CLOSURE

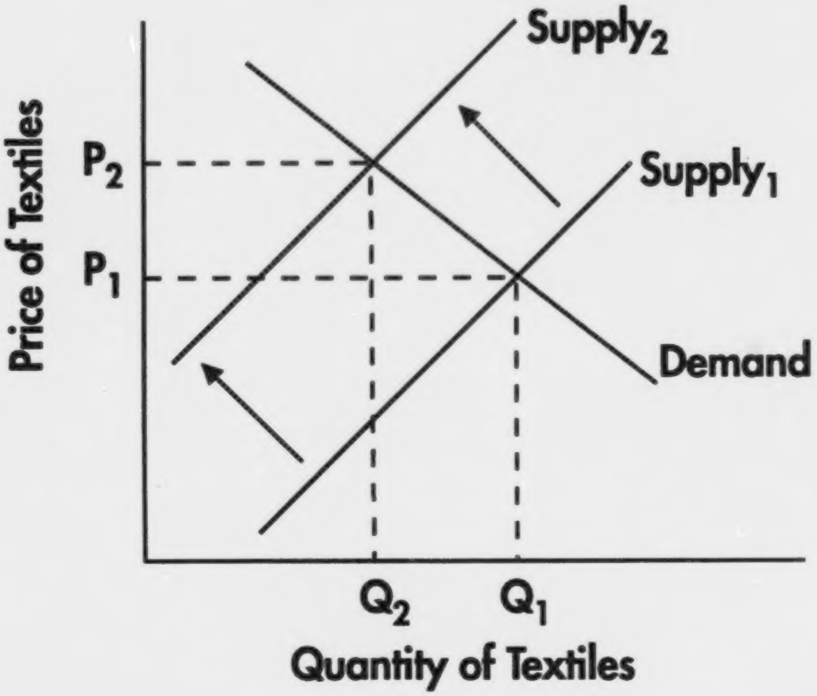
Remind the class that a key point of this activity is that protection from competition can have economic outcomes unforeseen by political leaders. Jefferson's embargo resulted in economic outcomes he likely had not intended. The embargo drove up the prices of textiles. These increased prices hurt consumers but served as incentives for business people to begin to manufacture textiles in the United States. After the War of 1812, the return of competition in textiles helped consumers by reducing prices. It also drove many of the New England mills out of business. The United States had begun to industrialize prematurely in textiles. *Ask:*

A. How would the American economy change today if Congress placed an embargo on imported cars? Display Visual 2 to explain how prices would change. (American auto makers would increase production and gain new profits.)

B. How would American consumers be affected? (They would pay billions of dollars more for automobiles than if they had been permitted to buy imported cars at prices determined by market forces.)

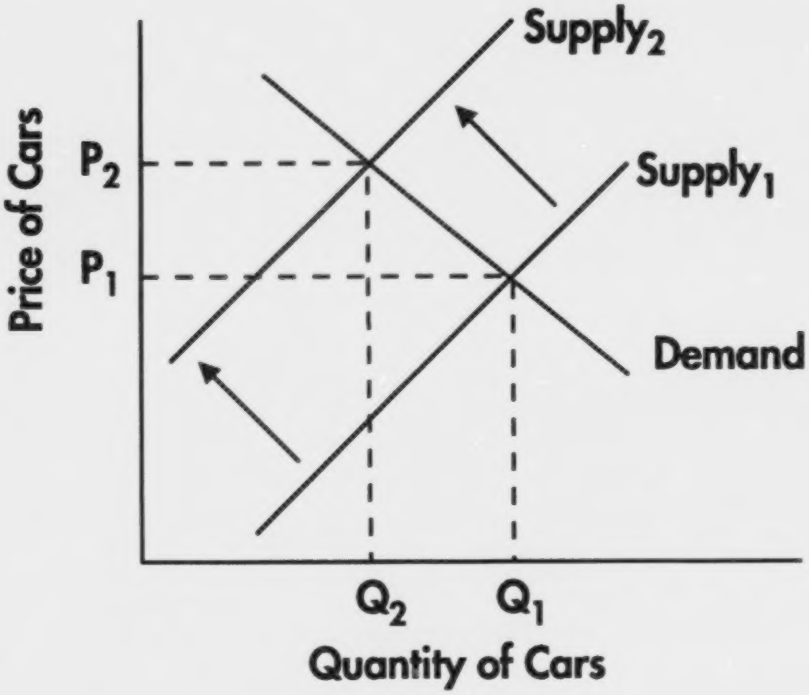
## VISUAL 1

# JEFFERSON'S EMBARGO AND THE SUPPLY OF TEXTILES



## VISUAL 2

# AN EMBARGO ON IMPORTED CARS



From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

Name____________________

# ACTIVITY 1
# BOSTON MANUFACTURING COMPANY

## BRITAIN AND FRANCE: WAR AND THE U.S. ECONOMY

From 1793 until 1815, with one major interruption, France and Great Britain were again at each other's throats. At times, their fighting helped the young U.S. economy. For example, in some of these war years, American traders transported sugar, coffee, cocoa, pepper, spices, and other goods to Europe, and carried manufactured goods to and from Europe around the world. However, neither France nor Britain was pleased with this role. In 1803, Britain tried to restrict severely the trade of neutrals with France. Meanwhile, Napoleon was attempting to blockade Britain.

In 1807, fearing the United States would be drawn into a war, Thomas Jefferson declared an embargo. American vessels were forbidden to trade with foreign ports. Certain goods manufactured in Britain were refused entrance at American ports. The severe drop in trade reduced the supply of products imported to the United States. This decrease in supply led to higher prices. For example, textiles from Britain became more expensive for American consumers. The United States was eventually brought into the war against Britain in 1812, despite Jefferson's hopes that the embargo might serve as a commercial substitute for war.

## BOSTON MANUFACTURING COMPANY

Francis Cabot Lowell was a successful Boston merchant who saw in the higher textile prices caused by President Jefferson's embargo an opportunity for profit. Lowell had visited many textile mills in the British Isles. He had learned how machinery and workers were organized to make cotton cloth. In 1813, he obtained a charter from the Massachusetts legislature to establish the Boston Manufacturing Company, selling shares to his wealthy Boston friends and raising $400,000.

Before the embargo, families either bought cloth manufactured in Britain or they produced their own at home. Many housewives produced surplus cloth for sale. But since each housewife produced cloth by herself, from spinning the thread to weaving the cloth, making a single yard of cloth took a great deal of time and energy. Homemade cloth came with a high opportunity cost—even though little money may have been involved.

Lowell's factory aimed to serve a much larger market than individual housewives could reach. He was able to take advantage of division of labor. Each task of the production process was separated for handling by workers who performed only designated, specific jobs. Division of labor meant that each worker specialized in the operation of one or two machines, such as spinning throstles, dressing frames (which prepared the thread for weaving), or power looms. The youngest workers specialized in replacing empty spindles with full ones on the looms.

## FARM WOMEN BECOME FACTORY WORKERS

Lowell decided to recruit young farm women from New England to work in his cotton mill at Lowell, Massachusetts. Farmland was abundant and cheap at that time. Most men, it appeared, preferred farming their own acres to working for an employer. Young farm women had fewer options available to them. Factory work therefore appeared to be attractive.

The young women who worked at Lowell lived in clean rooming houses or dormitories under the strict supervision of respectable matrons. The weekly wage was $2.50, of which $1.25 was subtracted to pay for board. This amounted to pay of less than 4¢ per hour, but a housewife who worked at home to make and sell cloth earned about 1¢ per hour.

The Lowell factory, with its modern machinery and well-organized labor force, could afford to pay its workers more and still make a profit. The Lowell women worked 12 or 13 hours per day, six days per week. They could be dismissed for not attending church or for "immorality." A 10:00 P.M. curfew was enforced. Education was offered to the mill workers in the form of a circulating library, night classes, Sunday school classes and lectures by such notables as Ralph Waldo Emerson, Horace Mann, and Robert Owen. Lowell expected that most of the women would remain in the mill for no more than two or three years, long enough to earn a dowry.

## QUESTIONS FOR DISCUSSION

1. Explain how Jefferson's embargo hurt American consumers.
2. How did Francis Cabot Lowell take advantage of higher textile prices caused by the embargo?
3. Explain how Lowell took advantage of division of labor.
4. Why did he recruit young farm women to work in the factory?
5. Why did the young farm women choose to work in the factory?

Name________________________

# ACTIVITY 2
# LETTERS HOME

## I. A LETTER FROM A LOWELL MILL WORKER*

Dear Friend,
according to my promise I take my pen in hand to Write to you to let you no that i am A Factory girl and iwish you Was one idont no But thaire Will be aplace for you in a fortnighor three Weeks and as Soon as theire is iwill let you no and as soon as you Can board with me We will have first rate fun getting up mornings in the Snow Storms. . . . Elesebeth is a lot of hansome fellows here. . . . for pitty Sake dond Show this letter to any body for the girls are talking So that idon't no What Iwrite.

## II. A FACTORY GIRL DESCRIBES HER BACKGROUND**

It so happens that I was born in New Hampshire, where my mother still resides, with a large family of young children dependent on her for support, and hard does she have to struggle to gain a livelihood for herself and offspring; and but for the charity of several kind friends and neighbors, she would have to put them out before they knew the first rudiments taught in our common schools. Sensible that she had a weight upon her heavy to be borne, to lighten the load, I left home and came to Cabotville. When I came here, I could not read, except by spelling out the words like a child of very few years. I had not commenced learning to write, and all the learning I now have has been gained without instruction, having obtained it alone and that too, after I had labored in the mill twelve hours a day.

## QUESTION FOR DISCUSSION

Based on these two firsthand accounts, why did these women choose to work in the factory?

---

*Source: Lise Vogel, "Hearts to Feel and Tongues to Speak: New England Mill Women in the Early Ninteenth Century," in Milton Cantor and Bruce Laurie (eds.), *Class, Sex, and the Woman Worker*, Greenwood Press, 1977, pp. 65–66.

**Source: Vera Shlackman, *Economic History of a Factory Town*, Smith College Studies in History, Vol. XX, Nos. 1–4, Smith College, 1935, p. 59.

# COST CUTTING IS FASHIONABLE

## INTRODUCTION

***History*** Manufacturers in the United States were quick to take advantage of new ideas. The invention of the sewing machine in the 1850s was an example. It led to the eventual mass production of clothing.

***Mystery*** How can a company increase its total costs, decrease the price of its products, and increase the company's profits?

***Economic History*** All choices involve costs. In making choices, individuals seek to obtain the most advantageous combination of costs and benefits. To reduce costs, individual producers may take risks by investing in new methods of production. The substitution of machines for human labor can increase production. The producer's *average* costs are reduced because total costs are "spread out" over many more units.

## CONCEPTS

Costs
Economies of scale
Capital goods
Profit

## OBJECTIVES

♦ Define economies of scale.

♦ Use economic reasoning to explain why producers use capital goods.

♦ Give examples of capital goods which influenced the type of clothing made in the United States.

## LESSON DESCRIPTION

This lesson demonstrates to students the concept of economies of scale. It starts with a short lecture, asks students to complete an activity, and describes different capital goods used to make clothing in the United States.

## TIME REQUIRED

♦ One class period

## MATERIALS

One transparency of Visual 1.
One copy for each student of Activities 1 and 2.

## PROCEDURE

1. Explain to the class that the purpose of this lesson is to use an example from history and some principles of economic reasoning to explain why the prices of computers, VCRs, calculators, and many other products have declined. Understanding why product prices can decline while companies make increased profits is one key to knowing how economies grow.

2. Distribute Activity 1 to the class. After students have read it, invite speculation, using the *Handy Dandy Guide (HDG)*, about why Scott is right. But leave the mystery unresolved at this point. Explain that we are going to investigate a historical example of clothing production, to better understand Scott's problem.

3. Display Visual 1 and discuss the definitions of **Economies of Scale** and **Capital Goods.**

4. Ask the students to imagine the fashion decisions that a famous designer of fashionable clothes would make. Encourage them to describe the characteristics they would like to have in clothes. List ideas on the chalkboard.

5. After they describe their ideas, ask the students how they can earn a living by designing clothes. They should realize that the more people who like their clothes and buy them, the more money the fashion designer makes. Unpopular designs mean financial failure. As a fashion designer, you would want to provide people with the kinds of clothing they would choose to have.

6. Distribute Activity 2 to the class. Divide the class into small groups to do the calculations for Part II. Then assign each group to write a one– or two–sentence statement that explains why Tim's Tailor Shop became so prosperous. Students must use the two new concepts of economies of scale and capital goods in their statements. Here is a sample statement: Combining the use of machines (capital) with human labor can increase production in an economy. The producer's per unit costs are reduced in the sense

that total costs are "spread out" over many more units. This is economies of scale in action.

**Answers for Activity 2, Part II**

| | |
|---|---|
| Total production | 10 |
| Total number of tailors | 10 |
| Total wages per day ($1 x 10 tailors) | $10.00 |
| Machine cost per day ($313/313) | $1.00 |
| Total material cost per day ($.50 x 100) | $50.00 |
| Total costs per day (Total wages + total machine cost + total material costs) | $61.00 |
| Cost per unit (Total costs/100) | $ 0.61 |
| Total revenue per day ($2 x 100 suits) | $200.00 |
| Profit (Total revenue – total cost) | $139.00 |

**Answers for Activity 2 Discussion Questions**

1.) Costs per item before the purchase of machines was $15.00. Costs per item after the purchase of machines was $.62.

2.) The price of suits remains $2.00.

3.) The use of capital allowed workers to be more productive per day. The increased production meant the total cost was spread over many items, which in turn meant that the cost of each item was less. The business became more profitable by reducing costs with economies of scale.

4.) Accept a variety of responses.

7. Have a spokesperson for each group read the group's statement to the class. Ask the class to choose the most accurate statement of all those presented, and have the group that wrote it put it on butcher paper. Leave it posted in the room, visible to everyone.

8. Explain to students that this type of cost-cutting, based on capital and economy of scale, will become very important as we examine the economic growth that took place in the United States after the Civil War.

## CLOSURE

Review the case of the Jackson High School News from Activity 1. Ask the class:

A. Why was Scott probably correct in encouraging his school to use the new copier? (Scott wanted to reduce the costs of producing the newspaper. His incentive was to see the newspaper become more successful. He was willing to take some risks to make the newspaper more successful. He figured that use of the copier would reduce production expenses per unit. The fact that the copier would print on both sides and was very fast would save paper and hours of secretarial time. The savings could be used to reduce the price and sell more newspapers. If enough newspapers were sold, the school paper might even make a profit.)

B. What are some other examples of technologies that have reduced costs? (Computers have contributed to reductions of costs of several products and services from performing routine office tasks of typing, filing, and accounting to improving the manufacturing of automobiles. Computers themselves, along with many electronic devices such as fax machines, VCRs, and cellular phones, have generally decreased in price since their introduction into the U.S. market.)

**Name**____________________

# ACTIVITY 1

# *ECONOMIC MYSTERY* THE COSTS OF NEWS AT SCHOOL

THE *JACKSON HIGH SCHOOL NEWS*, THE school newspaper, is published four times per year. One rule for producing *The News* is that the paper must pay for itself. This has always caused trouble because it seems nearly impossible to sell enough papers to cover the costs of producing it.

Scott, the student editor, was deeply concerned about the future of the paper. But he had an idea. He figured that if the school bought a new copier, priced at $2,000, he could save money and sell more newspapers. He noted that the copier could print on both sides of the paper and was very fast for the school secretary to operate. He approached Mrs. Kepner, the newspaper adviser, with the idea. She was not impressed. "Wait a minute," she said. "You want me to ask the principal for $2,000? She wants us to spend *less* money, not more! Scott, here's a hall pass. I think you should see the school nurse."

But Scott was right. Even though purchase of the new copier would cause the total cost of producing the newspaper to go up, he could still reduce the cost of each newspaper to the school.

How? This mystery is not an easy one to crack. However, the solution lies in the application of the following principles from the *Handy Dandy Guide*:

People's choices involve cost.

People respond to incentives in predictable ways.

People's choices have consequences that lie in the future.

# VISUAL 1
# DEFINITIONS

| | |
|---|---|
| Economies of Scale: | Reductions in a business enterprise's long-run, per unit costs when it expands production. |
| Capital Goods: | Human–made resources (buildings, machinery, and tools, for example) used in the production of goods and services. |

**Name**____________________

# ACTIVITY 2
# THE LOW COST OF FASHION

## PART I WITHOUT MACHINES *

Imagine that it is 1854 and you run a tailor shop in New York City. It is the biggest tailor shop in NYC, and you are very proud of it. You employ ten tailors who work six days per week. Each tailor makes one man's suit each day. Each tailor earns $1 per day (a very generous wage). Production of each suit costs you $.50 in material, and you sell your suits for $2 each. Your firm's financial report* looks like this:

| | |
|---|---|
| Total production per day | 10 suits |
| Total wages per day (\$1 x 10 Tailors) | \$10.00 |
| Total material cost per day (\$.50 x 10) | \$ 5.00 |
| Total costs per day (Total Wages + Total Material Costs) | \$15.00 |
| Cost per unit (TC/10 suits) | \$ 1.50 |
| Total revenue (\$2 x 10 suits) | \$20.00 |
| Profit per day (TR – TC) | \$ 5.00 |

You earn a good living. Your business is open 313 days a year. You sell all the suits you produce, so your yearly profit is $5 x 313 days or $1,565. Your income is about triple the average income of a U.S. citizen in 1854.

**This example is simplified to illustrate points related to the benefits of mass production. The profit level, for example, is much higher than is usual. Many cost factors have not been included because they would not change the conclusion.*

## PART II WITH MACHINES

You may think that you are living well, but the bookkeeper is unimpressed. The bookkeeper suggests that if you buy $313 sewing machine, use the idle building you own next door for a year, and train your tailors to use the machine, you could earn more money and produce more suits. In fact, you could produce ten times more suits per worker. You ask, "How can that be? It would drive up my total costs."

*See whether the bookkeeper is right. Do the following calculations.*

Total production per day _____suits

Total number of tailors ________

Total wages per day (\$1 x 10 Tailors) per day \$_______

Machine cost per day (\$313/313 days) \$_______

Total material cost per day (\$.50 x 100) \$_______

Total costs per day (Total wages + total machine + total material costs) \$_______

Cost per unit (TC/100 suits) \$_______

Total revenue (\$2 x 100 units) \$_______

Profit per day (TR – TC) \$_______

If you sold all your suits, you would be rich beyond your dreams. $138 x 313 days is $43,507—about 87 times greater than the average income in the United States at this time. Of course, there are some risks. You have to commit to buying the machines and material before you know whether people will buy your suits. If customers are not happy with your product, you could lose money on this proposition. Business owners are risk takers, and the most successful ones are those whose risk-taking pays off.

In this case, your decision paid off. Now you can choose to expand your plant more (hire more tailors and buy more equipment), give your tailors a higher wage, reduce the price of your suits to increase sales and discourage competing firms, or take the money and visit Paris.

## QUESTIONS FOR DISCUSSION

1. What are the costs per suit before and after the purchase of the sewing machine?

2. What was the price of the suits before and after the purchase of the sewing machine?

3. Write a statement—one or two sentences—that explains why Tim's Tailor Shop became so prosperous. Use the ideas of economies of scale and capital goods in your statement.

4. What do you think would be the best use of your increased profits?

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

# IMPROVING TRANSPORTATION

## INTRODUCTION

***History*** In the early 1800s, turnpikes, canals, and steamboats spread across the eastern U.S. landscape. By the 1850s, railroads were becoming common. There was a boom in transportation construction.

***Mystery*** U.S. history before the Civil War abounds in transportation mysteries. For example, why would a farmer from Ohio walk a thousand miles to bring a herd of cattle to New York?

***Economic History*** The incentive of high prices for livestock encouraged farmers to drive their herds to large population centers. Eventually, improvements in transportation reduced the costs of transporting products to market, and this, in turn, resulted in reduced prices to consumers. Reduced transportation costs alter incentives facing producers. They encourage people to seek out and expand trading opportunities which generates more wealth.

## CONCEPTS

Productivity
Costs
Incentives

## OBJECTIVES

♦ Apply economic reasoning to analyze three economic mysteries involving high transportation costs.

♦ Recognize that productivity can be increased by improving transportation.

♦ Recognize that reducing costs of transportation permits producers to sell goods available to consumers at lower prices.

## LESSON DESCRIPTION

By examining economic mysteries and statistics, students learn how improvements in transportation reduced the costs of making goods available to consumers.

## TIME REQUIRED

♦ One class period

## MATERIALS

One transparency each of Visuals 1, 2, and 3.
A wall map of the United States.

## PROCEDURE

1. Explain to the class that there are times when you are convinced that people of the past must not have been very bright. Point out that you have evidence that some Americans in 1820 must have been crazy. Display Visual 1. Illustrate each case by showing the route used on a map of the United States. Remind the class that *Handy Dandy Guide (HDG)* reasoning suggests that when people make choices, they are seeking to find the best combination of costs and benefits. Ask students to try to find an explanation for the mysteries presented in Visual 1 other than that "in the old days, people were crazy."

2. Explain the mysteries in Visual 1 by noting the following points:

A. Point out that in each of the cases people were responding to the poor transportation of the period in the lowest–cost way available to them. In Mystery 1 it was cheaper per pound for farmers to reduce the bulk of their crops by turning wheat into flour before they shipped it. It was also cheaper to ship the flour to New York City by water, even though that water route was more than a thousand miles longer than the route by land from Ohio to New York City. Most roads at the time were nothing but dirt ruts, and mountains lay between Ohio and the harbor of New York. And it would have been difficult and time–consuming, if not impossible, for the farmers to pole boats upstream on the Mississippi and the Ohio. It was less costly for farmers to sell their boats for whatever price they could get and then make their way back home on foot or horse.

B. In Mystery 2, the prospect of getting a high price for their livestock caused farmers to drive their herds to the large population centers in the East.

C. In Mystery 3, the high coal prices in Philadelphia reflected the cost of transporting coal from western Pennsylvania, where it was mined, to Philadelphia, where it was sold. Explain that almost three–fourths of the price of the coal in Philadelphia could be attributed to transportation costs.

3. Tell students that better transportation stimulates economic growth. When the cost of getting goods from producer to consumer is reduced, prices are reduced for consumers and they buy more, which in turn increases business activity, jobs, and trade.

4. Show Visual 2. Tell students that this presents a comparison of three forms of transportation available in the early 1800s. All three used horsepower, literally, and, since horses cost money, the more weight a horse could pull, the lower the cost per pound of transporting goods. Time is also a cost. The time spent by the horses and the people who went along with them, and the time that elapsed between the production of a good and its sale, could have been spent on something else.

5. Explain Visual 2 by noting the following points.

A. A turnpike was a road that had been cleared of trees and brush. Several states had laws saying that such "improved" roads must not have any tree stumps more than a foot or eighteen inches high, which makes it easy to understand why a horse and wagon averaged only about two miles per hour traveling on such roads.

B. Canal barges were towed by horses walking along the side of the canal on a towpath. The water bore most of the weight of the load, which enabled each horse to pull far more than it could pull while traveling on land.

C. The railroads in this example are not the steam–powered ones we commonly think of. Instead, horses pulled cars along wooden and iron rails. When steam locomotives came into use in the 1830s, they reached speeds of 10 to 15 miles per hour. Engines became more and more powerful, able to pull ever–larger loads.

6. Display Visual 3. The first example shows the reduction in the money–cost of shipping brought about by the building of the Erie Canal, completed in 1825. The second shows the reduction in time–costs of shipping brought about by the introduction of the steamboat to the Mississippi and other rivers after 1811. Before that time, flatboats and keelboats went down the Mississippi fairly easily, but only keelboats could make the return trip upstream, and so many men were needed to pole the boat that little room was left for freight or passengers.

7. Ask students how consumers benefit when transportation costs fall. (Prices can also fall and consumers can buy more, thus raising their standard of living.)

## CLOSURE

Remind the class that this lesson illustrates how improvements in transportation reduce costs which, in turn, can lower prices for consumers. The benefits of improvements in transportation can be exaggerated. Many canals and some railroads, for example, were uneconomic. Still, many economists today claim that economic growth in the United States could be improved by new investments in our economic infrastructure.

(*Infrastructure* refers to roads, communication systems, financial systems, and educational and training institutions.) An important part of our infrastructure is our systems of transportation. *Ask:*

A. How might investments in new expressways foster economic growth today? (If goods can be shipped at less cost on new expressways, this would save consumers money and encourage trade.)

B. How might building new airports foster economic growth? (Many air travelers are business people. Time spent waiting for flights to take off is time not spent negotiating contracts or developing new products.)

# VISUAL 1

# IN THE OLD DAYS, PEOPLE WERE CRAZY

## MYSTERY 1

In 1810, a farmer in eastern Ohio who wanted to sell what he grew to the people of densely populated New York City would grind his wheat into flour, then build a boat or barge and pole it down the Ohio and Mississippi Rivers to New Orleans. There he would sell his flour, and the boat would be broken up and sold for lumber and firewood, leaving the farmer to get home the best way he could. Meanwhile, the flour would be loaded on an oceangoing ship which would sail east around the Florida peninsula and then north up the Atlantic Coast to New York City harbor. Why?

## MYSTERY 2

Another farmer from the Ohio area might walk a thousand miles to bring a herd of pigs or cattle to New York. Why?

## MYSTERY 3

A family in Philadelphia was willing to pay $4.50 a pound for coal, while the same kind of coal sold for $1.35 in western Pennsylvania. Why?

## VISUAL 2

# GETTING GOODS TO MARKET IN THE EARLY 1800s

| | Tons per Horse | Miles per Hour |
|---|---|---|
| Turnpike | 0.7 | 2 |
| Canal | 10.0 | 4 |
| Railroad | 20.0 | 6 |

Source: Stanley Lebergott, *The Americans: An Economic Record.* New York: W. W. Norton & Company, 1984, p. 113.

# VISUAL 3
# REDUCING COSTS

Cost of sending a ton of wheat from Buffalo to New York City (in dollars)

| | | |
|---|---|---|
| 1817 | by wagon | $100 |
| 1829 | by the Erie Canal | $ 10 |

Cost of sending freight from New Orleans to Louisville in time

| | | |
|---|---|---|
| 1810 | by keelboat | 3 or 4 months |
| 1820 | by steamboat | 1 month |
| 1860 | by steamboat | under 1 week<br>(freight rates 90% lower than in 1814) |

# WHAT IS INVESTMENT?

## INTRODUCTION

***History*** The period before the Civil War was a time of economic expansion in the United States. Many Americans grew prosperous by investing in their labor, land, or capital to increase their wealth.

***Economic History*** Economic growth is fostered by rules which reward investment in productivity-enhancing products and services. Investing productive resources in order to acquire wealth in the future requires sacrificing consumption of goods and services in the present.

## CONCEPTS

Productive Resources
Investment

## OBJECTIVES

♦ Identify examples of investment.
♦ Identify examples of opportunity costs of investment.

## LESSON DESCRIPTION

Students read an activity about a fictitious farmer of the early 1800s who used earnings from his labor to buy a farm and then used income from the farm to increase his wealth in the future. Students then answer questions about the farmer's decisions.

## TIME REQUIRED

♦ One class period

## MATERIALS

One copy for each student of Activities 1 and 2.

## PROCEDURES

1. Explain to the class that the purpose of this lesson is to learn how investment fosters economic growth. *Ask:*

A. What do you think the term *investment* means? (Their answers will probably involve putting money into a bank or some financial instrument in order to earn interest.)

B. What do you give up when you use money in this way? (The students should identify products that they might purchase now as something they give up in order to earn interest with which to buy more later.)

C. Ask students for some reasons to save—to buy a house, to get a college education, and so on.

2. Tell the students that what they have been discussing is *financial investment*—giving up purchases now in order to get interest income that can be used to make larger purchases later. There is also *economic investment*—using resources to make a business or an entire economy more productive in the future, rather than to produce goods and services that can be consumed immediately.

3. Divide the class into small groups. Distribute Activity 1. Have groups read the information and complete the questions.

4. Lead a whole group discussion of the student responses to Activity 1.

## ANSWERS TO ACTIVITY 1

1. When Peter Johnson arrived in Ohio, the only productive resource that he owned was his own labor. How did he use this labor to get a farm? What did he give up, or forgo? (He sold his labor for cash and saved the cash rather than spending it on goods he might have wanted. After he bought his farm, he invested leisure time in clearing the land.)

2. What incentives did Peter have to work to get his own farm? (His incentives were to earn a living, but also to increase the value of his land by clearing it. The value of the cleared farmland he sold in 1835 was much higher than the price he had paid for it in 1825.)

3. How did the existence of a bank help Peter? What did Peter forgo because he took out a loan? (It would have taken Peter many years to save up money to buy 80 acres, the minimum number of acres the government sold. By borrowing, he was able to start producing crops for sale within two years. However, some of the income from the crops had to be used to pay back the loan rather than to improve the Johnson family's standard of living.)

4. Peter obtained cash by sending wheat and salt pork down the Ohio and Mississippi Rivers on steamboats owned by private companies. Were those steamboats there because their owners wanted to help the farmers of the Ohio Valley? If not, why were they there? (The incentive for business firms to operate steamboats on the Ohio and Mississippi River was to earn profits, but the availability of improved transportation gave farmers an expanded market for their products.)

5. When Peter came to Ohio, he was penniless, but when he moved to Illinois he had almost $1,000 in cash. How did his cash savings help him to produce more quickly in Illinois? (Peter was able to begin farming all of his land almost immediately because he could now afford to hire others to make the land suitable for farming, unlike when he started out in Ohio.)

6. How did the federal government help Peter? (The Cumberland Road made it easier for settlers like the Campbells and the Johnsons to move west. The availability of an organized market for cheap land was also helpful, although the price of $1.25 per acre was not a subsidy from the government to would-be farm owners. Most of the land sold was not worth more than $1.25 before it was cleared. It should be pointed out that the sale of public lands was an important source of federal revenue in the pre-Civil War period.)

## CLOSURE

Tell students that investment increases productivity—the amount of output from productive resources—but that investment has opportunity costs. In order to invest, something must be given up. We often think of investment as dollars spent to buy capital goods or improve transportation, but besides dollars investors also give up the time they could have used in other ways and the consumer goods they could otherwise have purchased with the dollars they spent instead on investment.

Distribute Activity 2 and have students complete it, either individually or in groups. The first section, on Peter Johnson's farm, is filled out as an example. While the questions are all based on materials in lessons 2, 3, and 4 of Unit Six, they might also be answered through careful use of a U.S. history textbook.

**Answers to Activity 2**

**Cotton Gin.** Who invested? Eli Whitney. What did he forgo? Other ways to spend his time and other goods he could have purchased instead of the raw materials he used to make cotton gins.

**Increased Cotton Production.** Who invested? Southern farmers and planters. What did they forgo? Other goods they could have purchased instead of land and slaves, and other crops that could have been grown.

**Textile Mills at Lowell.** Who invested? Francis Lowell and his stockholders. What did they forgo? Consumer goods or alternative investments they could have purchased or made with their financial capital.

**Turnpikes.** Who invested? Private individuals. What did they forgo? Alternative goods or investments.

**Canals.** Who invested? Governments (through taxes) and bondholders (by purchasing canal bonds). What did they forgo? Other goods taxpayers could have bought if their taxes had been lower, or other goods the government could have bought, and alternative investments for bondholders.

**Steamboats.** Who invested? Private individuals. What did they forgo? Alternative goods or investments.

**Name**______________________

# ACTIVITY 1

# PETER JOHNSON, INVESTOR

PETER JOHNSON WAS BORN ON HIS father's farm in western Pennsylvania in 1805. Because he was the youngest of several sons, he knew that he would never be able to farm on his father's land. In the late winter of 1823, when he was 18 years old, Peter began to make his way west, where government land could be purchased for $1.25 per acre. He walked to Pittsburgh and then, still on foot, along the Forbes Road to Cumberland, Maryland. At night he slept by the side of the road. Cumberland was where the National Turnpike, the only non-military road financed by the federal government in the pre-Civil War period, began. There he met a farmer, James Campbell, who was taking his family to eastern Ohio. The farmer agreed to take Peter along if Peter would help clear the land that Campbell expected to buy.

Arriving in Ohio, Campbell bought 80 acres from the federal government at $1.25 per acre. Peter stayed with the Campbells as a hired hand, helping to dig a well and build a cabin, to clear the land of trees and brush, and to plant wheat and corn. He received from Campbell $8.00 per month, and room and board. He also hired out his services to other farmers in the area. Within two years, he had saved $150.00. He borrowed $450.00 at 10 percent interest from a bank in the nearest town. With this money he purchased 80 acres of land, a plow, a horse, a cow, and several pigs. At the age of 20, he was an independent farmer with a new wife, the eldest Campbell daughter, Mary Ann.

The land of eastern Ohio was heavily forested. In his first year of farming, even with some help from his father-in-law, Peter was able to clear and plant only a few acres—enough to feed his small family and provide hay for the horse and the cow. Mary Ann raised vegetables on a small garden plot next to the cabin. Peter and his father-in-law built a three-sided cabin and a lean-to shelter for the animals.

To make the first loan payments, Peter also continued to work for other farmers for cash. Mary Ann earned cash by spinning thread and weaving cloth for sale. During the winter, Peter continued to clear his land. Within a few years, he had cleared most of his 80 acres, and he was able to send wheat flour and salt pork from his pigs down the river to New Orleans. He used money earned in this way to pay off his bank loan.

By 1835 Peter, Mary Ann, and their four children lived comfortably on their farm. Cash earned from their sales of wheat and pork had allowed them to build a larger cabin and to buy some sturdy furniture. But Peter began to hear stories about the rich farmland of central and northern Illinois, and he also knew that his cleared fields, for which he had paid $1.25 per acre, could now be sold for $8 or $9 per acre. He sold his land, tools, furnishings, and all his livestock except for two horses, and moved his family west.

Peter bought 80 acres of rich farmland near the Illinois river in 1836, paying the federal government price of $1.25 per acre. There were few trees on this land, but the tough, root-infested sod had to be broken up.

Peter used much of the profit from selling his Ohio farm to hire "sod-busters" to make his new land suitable for plowing. Then he planted wheat and corn and raised pigs. As the city of Chicago developed to the northeast of his farm, Peter began to specialize in raising corn. Most of the corn he fed to his pigs, which he then sent by river to the city. When Peter died, on the eve of the Civil War, he was able to leave a substantial inheritance to his children.

## QUESTIONS FOR DISCUSSION

1. When Peter Johnson arrived in Ohio, the only productive resource that he owned was his own labor. How did he use this labor to get a farm? What did he give up, or forgo?

2. What incentives did Peter have to get his own farm?

3. How did the existence of a bank help Peter? What did Peter forgo because he took out a loan?

4. Peter obtained cash by sending wheat and salt pork down the Ohio and Mississippi Rivers on steamboats owned by private companies. Were those steamboats there because their owners wanted to help the farmers of the Ohio Valley? If not, why were they there?

5. When Peter came to Ohio, he was penniless, but when he moved to Illinois he had almost $1,000 in cash. How did his cash savings help him to produce more quickly in Illinois?

6. How did the federal government help Peter?

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

Name____________________

## ACTIVITY 2
## INVESTMENT REQUIRES GIVING SOMETHING UP

| | **INVESTMENT** | **WHO INVESTED?** | **WHAT WAS GIVEN UP?** |
|---|---|---|---|
| Peter Johnson's farm in Illinois | Labor and farm income | Peter Johnson | Other ways to spend his time and other consumer goods he could have purchased |
| The Cotton Gin | Time to invent cotton gin and materials to produce gins | | |
| Increased Cotton Production | Land and slaves | | |
| Textile mills at Lowell, Mass. | Factory buildings and machinery | | |
| Turnpikes | Labor and tools | | |
| Canals | Labor and tools | | |
| Steamboats | Boats to provide transportation on lakes and rivers | | |

# ENTREPRENEURSHIP CASE STUDY: SAMUEL SLATER

## INTRODUCTION

***History*** Samuel Slater (1768–1835) was born in England. Perhaps the first industrial "spy," he was also the first to build labor-saving textile machines in the United States. His machines led to the development of a new sector in the American economy.

***Economic History*** Successful economies offer incentives which encourage productive efforts. In response to incentives, entrepreneurs like Samuel Slater use their creative energies to search for what people want to have; then they find ways to deliver it.

## CONCEPTS

Entrepreneurship
Technological development

## OBJECTIVE

◆ Identify the contributions of Samuel Slater in developing the U.S. textile industry.

## LESSON DESCRIPTION

This lesson features a class discussion of a case study of an entrepreneur.

## TIME REQUIRED

◆ One class period

## MATERIALS

One copy for each student of Activity 1.

1. Explain that Americans today sometimes complain about industrial espionage. Companies in the United States are careful to guard their trade secrets. It is somewhat ironic that trade secrets imported from England enabled the American textile industry to get started.

2. Distribute Activity 1 to the class. Invite the students to read about Samuel Slater, one of the world's first industrial spies.

3. After the students have completed their reading, *ask:*

A. What are some characteristics of an entrepreneur and why are these important to an economy? (Entrepreneurs identify what they think people want to have, and they find ways to deliver it—in hope of earning a profit. Also, entrepreneurs often think big—for example, imagining the development of a completely new sector for the economy.)

B. Why did people no longer have to be wealthy to afford more than one outfit? (Entrepreneurs developed labor-saving machines that reduced the price of clothing.)

C. How did Samuel Slater change the U.S. economy? (He introduced textile machines to the United States and successfully marketed his product.)

D. Why did other entrepreneurs soon follow Slater? (Francis Cabot Lowell, a Boston merchant, observed Slater's success. After his own "spy" mission to England, Lowell built textile mills in Massachusetts.)

## CLOSURE

Conclude the lesson by noting that some nations today do not respect laws meant to protect economic property rights. For example, some nations do not enforce the copyright and patent laws of other nations. In countries where copyright and patent laws are not enforced, "industrial pirates" take a product produced in one nation (jeans, watches, books, videotapes, computer software, for example), and imitate or copy it, selling it for much less than the price of the original. *Ask:*

A. What are the economic advantages of not enforcing copyright and patent laws of other nations? (Consumers may receive a product at a low price, and illegal producers profit handsomely.)

B. What are the economic disadvantages of not enforcing copyright and patent laws of other nations? (Given the illegal nature of the activity, consumers may unknowingly purchase inferior products. Individuals who create new products and ideas do not receive their full reward. In the long term, individuals who otherwise might develop new products for consumers will be discouraged because of reduced rewards.)

Name________________________

# ACTIVITY 1
# SAMUEL SLATER: WEALTH CREATOR OR THIEF?

A CHARACTERISTIC OF AN ENTREPRENEUR is the inclination to search persistently for what people might want to have. Then, having identified what people want, entrepreneurs take steps to supply a product to satisfy the desire they have discovered. The early development of the U.S. textile industry represented a major change in the U.S. economy. Samuel Slater (1768–1835) was convinced that the United States could develop its own textile industry and compete successfully with England. All it lacked was the know–how—something he possessed.

## DEVELOPMENTS IN ENGLAND

In the late 1700s, few people could afford more than one set of clothes. With patches and mending, a person's set of clothes was meant to last years. Only wealthy people could afford more. Entrepreneurs recognized that finding a way to make clothing less expensive would be very popular with consumers.

The largest cost of clothing was the cost of labor. Inventors in England, sometimes encouraged by competitions sponsored by Parliament, worked on various labor–saving machines for spinning and weaving. By 1770, labor–saving machines began to appear. As a result, people who were not wealthy now could enjoy owning more than one outfit to wear.

Americans imported cloth from the textile mills in England because the English offered a good product at a competitive price. Attracted by the success of the English textile industry, some Americans wanted to learn how the English did it. They desperately wanted to acquire English technology. The English were very much aware of their technological advantage in textiles. Parliament passed strict laws forbidding the export of textile technology to other nations. These laws applied to textile machinery, plans, and even to workers.

## SAMUEL SLATER: FIRST INDUSTRIAL SPY?

Samuel Slater was a young man living in England when he decided to become an industrial "spy." His plan was to take English technology to the United States and launch a new industry there.

Slater had been apprenticed at age 14 to a former partner of Richard Arkwright—an inventor of cotton–spinning machinery. At the age of 21 and disguised as a farm boy, Slater left England in 1789. He left without possession of machinery or plans for machinery. What he knew about textile machines he carried in his head.

Slater entered the firm of Almy & Brown in Providence, Rhode Island. He agreed to build and operate cotton thread–spinning machinery of the sort invented by Arkwright in England. Having no written plans, he recreated the machines, often making his own improvements, from memory.

Slater experienced some problems other entrepreneurs have faced. Once his yarn mill started producing, the output quickly swamped the local market in Providence. Soon, he was figuring how to get his product to the larger markets in Boston and New York.

Large profits are a signal, alerting other producers of opportunities waiting to be seized. Francis Cabot Lowell, a Boston merchant, observed Slater's success. Under the pretext of traveling to England to improve his health, Lowell was soon touring mills in England and making his own plans to build textile mills in Massachusetts.

## QUESTIONS FOR DISCUSSION

1. What are some characteristics of entrepreneurs and why are these important to an economy?

2. Why did Americans in the late 18th century and thereafter no longer have to be wealthy to afford more than one outfit?

3. Why did other entrepreneurs soon follow Slater?

# SAMPLE TEST ITEMS

## LESSON 1

1. Which of the following best explains why people choose to wear fashionable clothing?

A. Advertising makes them buy impractical clothing.
B. Producers do not make practical clothing for consumers.
C. American citizens have such high incomes that they need to spend their money foolishly.
✓D. Companies can make fashionable clothing and offer it at an attractive price to consumers.

2. Food, shelter, and clothing are usually considered necessities by people. You can't live without them. Yet most people have several items of clothing which they wear only for special occasions (for example, party dresses, tuxedoes, sweatpants and sneakers, hiking boots). Why do people choose to buy unnecessary clothing?

*Possible answer:* The amount of clothing required to protect us from nature is very small, especially in warm climates. We could always wear the same clothing every day and wash it each night. We choose to have additional clothing because the additional benefits (convenience, attractiveness, etc.) outweigh the costs of additional clothing.

## LESSON 2

1. Which of the following is an example of increasing productivity?

A. A farmer buys an additional ten acres of land and is therefore able to increase the amount of wheat that he or she grows.
B. A shoemaker hires an assistant and is therefore able to make more shoes than he or she did before.
✓C. A weaver gets a new and better loom and is therefore able to produce more cloth in the same amount of time than he or she did before.
D. All of these.

2. Profit is the difference between the money earned by selling and the cost of making a product. How did Eli Whitney's cotton gin increase the profits of Southern cotton planters?

✓A. It reduced the amount of labor needed to remove the seeds from a pound of cotton.
B. It increased the amount of cotton that could be grown on each acre of land.
C. It made it possible to grow cotton in the interior of the South.
D. It made it possible to grow cotton in the North.

3. How can increases in productivity bring about higher average living standards?

A. When productivity increases, producers don't have to pay their workers as much, which allows them to reduce prices.
✓B. When costs decrease, prices can be reduced and people are encouraged to buy more.
C. When productivity increases, products are of higher quality, so people are willing to pay more for them.
D. When costs are reduced, prices can be increased so people buy more.

4. Explain how, in a market economy like that of the United States, profit is often the incentive needed to bring about increases in productivity.

*Possible answer:* The prospect of earning profits encourages invention. Also, by lowering costs, producers can increase their sales and their profits. But there are costs and risks involved in increasing productivity. Buying a new and better machine, for example, is expensive, and there is a risk that the machine won't really lower costs or that sales and profits might not increase enough to pay producers back for their investment.

## LESSON 3

1. Why were the workers in Francis Lowell's textile mills mostly female?

A. Lowell paid higher wages to women than to men because women were better at weaving than men were.
✓B. The opportunity cost of working in a textile mill was lower for a woman than for a man.

C. Women were less likely to form unions and demand higher wages than were men.
D. None of these.

2. Why did Jefferson's embargo of 1807 encourage the building of textile mills in New England?

A. Since British textiles were no longer available, Congress gave American producers tax breaks to encourage them to build new mills.
B. Southern cotton planters thought that it was unpatriotic to sell cotton to the British, so they sent all their cotton to New England instead.
✓C. It became profitable for Americans to manufacture textiles when they didn't have to face price competition from British firms.
D. Both A and B.

3. What were the costs and benefits to a young woman of a job working in Francis Lowell's textile mills?

*Possible answer:* Costs: Long hours, strict supervision; Benefits: Higher wages than those available from alternative occupations, more social and educational opportunities.

## LESSON 4

1. Which of the following items would be considered a capital good—a tool that helps make goods and services?

A. Soft drink vending machine.
B. A rented limousine used to transport people from the airport to a hotel.
C. A vacuum cleaner used to clean the school classrooms.
✓D. All of the above answers are correct.

2. A friend of ours—Tawnya Raye Farre—owns a large limo which she uses on the weekend to provide rides for travelers to and from the airport and downtown hotels. During the week she works in a bank. A friend of hers explained that Tawnya could make still more money by providing limo service during the week. But Tawnya is reluctant to expand her service because her costs (gas, oil, driver salary) would go up and she is still making payments on the limo. Use the idea of economies of scale to explain how Tawnya might be able to make more money by following her friend's advice.

*Possible answer:* If her new costs (gas, oil, and salary) are less than the new revenues she would receive, Tawnya's profits would increase. The cost of the car payment will stay the same no matter how many trips the car takes to the airport. For example, with payments of $500 per month and 50 trips per month on weekends only, the average cost is $10 per trip. With the same payment of $500 per month, if Tawnya made 400 trips per month, the average cost is $1.25 per trip. The increased production spreads Tawnya's fixed costs over more trips and reduces the average cost of each trip. Her per trip costs could be lower if she ran the limo seven days per week instead of two days per week.

3. Many factory owners in the United States bought new machines in the 1850s to increase their production. Which of the following *HDG* statements helps explain the motive for their choice?

A. People choose.
✓B. People's choices involve cost.
C. Greed creates wealth.
D. None of the above.

4. If producers buy new equipment to make more items at less expense, will they make more money?

A. Yes, because new equipment reduces their total cost.
B. No, because old equipment is less costly to operate and maintain.
C. Yes, because producers will increase prices and make consumers pay more money.
✓D. Yes, if other costs don't change and consumers buy more of the product.

## LESSON 5

1. In the early 1800s, the cheapest way of transporting goods to market was by

✓A. Water.
B. Turnpikes.
C. Steam railroads.
D. Expressway.

2. Why did reducing transportation costs tend to increase the national wealth?

✓A. It created more opportunities for specialization in production and trade.
B. It was less expensive to move armies around the country.
C. It was easier for the government to collect taxes.
D. It encouraged states to become more self-sufficient.

3. Why do governments often sell bonds and spend tax money to improve transportation?

*Possible answer:* Improving transportation can increase productivity and lead to economic growth. Also, many transportation projects require such a large financial investment and take so many years to begin to pay off that private individuals and business firms are often reluctant to build them.

## LESSON 6

1. Economic investment is
A. Putting money in a bank so that you can earn interest in the future.
B. Buying goods and services that satisfy your wants.
✓C. Using resources to increase wealth in the future rather than to make goods and services sold to consumers.
D. Becoming eligible for a pension.

2. Explain why money spent on public schools can be considered as an investment.

*Possible answer:* Resources such as land, buildings, textbooks, and the labor of teachers are used to produce more productive workers in the future rather than to produce consumer goods and services now. Since public education is paid for primarily with tax dollars, taxpayers will have less money to spend on consumption now but will be able to consume more in the future to the extent that schoolchildren become more productive workers in the future.

## LESSON 7

1. Samuel Slater brought technical knowledge to advance the
✓A. Textile industry.
B. Ship building industry.
C. Metal fabrication industry.
D. Railroads.

2. High profits in the textile industry tended to
A. Discourage new producers from entering the market.
✓B. Encourage new producers to enter the market.
C. Have no effect on producers.
D. Confuse producers.

# BOOM AND BUST IN THE EARLY 1800s

UNIT 7 EXPLORES THE ROLE OF money in shaping the U.S. economy before the Civil War. The activities stress the importance of saving and investment, how banks create money, and the battle between President Andrew Jackson and the banks.

Lesson 1 stresses the importance of incentives which reward people for investing in the economy and the way in which investment stimulates economic growth. It begins with an economic mystery about why some people choose to save while others do not. The main part of the lesson involves students in an 1833 saving and investing simulation set in the town of Razorback in the Arkansas Territory.

Lesson 2 examines a fundamental misunderstanding many students have about the role of money in the economy. By participating in a simulation, students learn how banks create money on the basis of deposits.

Lesson 3 examines the "war" between President Andrew Jackson and the Second Bank of the United States. Students study a series of tables to decide whether the banks really printed worthless currency, as President Jackson claimed.

# SAVING AND INVESTING IN RAZORBACK

## INTRODUCTION

***History*** U.S. citizens in the period before the Civil War were investing in a vast array of new businesses including textile mills, farms, railroads, steamboats, and shops.

***Economic History*** Profit or a rate of return is the incentive that caused many people in the past to invest. They anticipated that choices made in the present would improve their circumstances in the future. They gave up present benefits in the hope of achieving greater future gains.

## CONCEPTS

Incentives
Profit
Savings
Investment

## OBJECTIVES

♦ Make investment decisions based on anticipated earnings.

♦ Evaluate investment decisions by reference to earnings outcomes.

♦ Identify communitywide effects of individuals' investment decisions.

## LESSON DESCRIPTION

In this saving and investment simulation small groups of students decide how they would invest $3,000, given a list of 10 possibilities. They learn how much they earned on their investments, taking into account not only the rate of return on the savings but also the financial consequences of investments that were not made.

## TIME REQUIRED

♦ One class period

## MATERIALS

One copy for each student of Activities 1, 2, and 3.

## PROCEDURE

1. Explain to the class that the purpose of this lesson is to learn why people invest and how investment can help the economy grow.

2. Explain to the class that they are about to take on the role of investors in the year 1833. Divide the students into groups of two or three. Distribute Activity 1 and ask each group to decide how it will invest its $3,000.

3. When the groups have completed their decisions, *ask:* Why are you willing to invest in this community? (You know your neighbors well. You anticipate that by saving and investing in their businesses you will increase your own income as well as theirs.)

4. List each group's investment decision on the chalkboard.

5. Distribute Activity 2 and have each group calculate its earnings. List each group's earnings on the chalkboard. Ask each group to review the investment choices it made and whether, in retrospect, other choices might have been better.

6. Distribute Activity 4 and have each group revise its calculation of earnings, given the new information.

7. Ask students how the availability of investment funds affects economic growth and the income of members of a community.

## CLOSURE

Restate the main idea of this lesson which is that saving and investing were important sources of economic growth before the Civil War. Present the class with a new investing problem. Tell the students that you have noticed that they tend not to eat the school cafeteria lunches. You are thinking about using your savings to invest in Express Deli—a stand across the street from school featuring a menu of students' favorite foods easily consumed during a school lunch period. *Ask:*

A. Under what circumstances do you think I would open the deli stand? (I would open the stand if I anticipated that my future income would be better than the next best use of my savings.)

B. Imagine that the Express Deli is a big success. In what ways has the economy grown or expanded? (More lunches are eaten.)

C. Who benefits from this increased output? (Students will have more choices. The owner will make a profit. People hired will have jobs that previously did not exist. Suppliers will have more business. Governments will collect more tax revenue.)

Name______________________

# ACTIVITY 1
# SAVING AND INVESTING IN 1833

CONGRATULATIONS! YOU HAVE JUST become the richest person in Razorback, A.T. (Arkansas Territory). Your rich, childless aunt back East died and left you $3,000 in gold. You want to save or invest in hope of earning a high rate of return from your new fortune.

Five years ago, in 1828, you started a general store on the banks of the Arkansas River, about 50 miles west of the place where the Arkansas flows into the Mississippi. The tiny town of Razorback grew up around your store—a cotton gin, a tavern, and a church. Now land is being cleared and planted all around you. You know your neighbors are hard-working, enterprising people. Your confidence about the future prosperity of your community is high. However, it is difficult to predict which particular uses of your $3,000 would be most profitable.

As you can see in the following list, you have 10 choices for saving or investing your $3,000. You may use any combination of one or more alternatives, but you may not save or invest more than $3,000.

After studying the alternatives, choose one or more of them as the means by which you will invest your $3,000. Indicate your choices by placing a check mark next to each item you choose. Remember to use the entire $3,000.

## INVESTMENT CHOICES

___ A. You can invest $1,000 to buy additional goods to sell at your store—for example, farm tools and cotton cloth. After all, new farmers and planters are settling in the area, and those who settled here previously are clearing new land. Your market is growing.

___ B. You can invest $2,000 in goods for your store.

___ C. You can invest all $3,000 in goods for your store.

___ D. Farmers have been complaining about the high prices charged by the Razorback cotton gin, which is the only gin in the entire area. John Parker, the proprietor of the town tavern, thinks that building a second gin would be a profitable undertaking. He has $2,000 in savings and wants you to go in with him as an equal partner to build a new gin.

___ E. Farmer Mordecai Evans wants to buy more land and clear it to increase the amount of cotton he can produce. Evans has lived in the area for several years and has a reputation as a good farmer. He wants to borrow $1,000 at 8% interest and pay it back over a five-year period.

___ F. Farmer Edward Grant moved into the Razorback area a year ago. His first cotton crop was good and now he wants to borrow $1,000 to buy more land and clear it for production. He is willing to pay 9% interest, to be paid back over a five-year period.

___ G. James Hickock, a stranger, just arrived in Razorback. He wants to buy land and clear it for farming. He has $300 and wants to borrow an additional $1,000 from you at an interest rate of 10%. He offers to pay the loan back over a five-year period.

___ H. Farmers in your area transport their crops on barges that float down the Arkansas River to the Mississippi River. The barges then have to travel another 30 miles down the Mississippi to the nearest steamboat landing. A Mississippi man approaches you with a proposition: Each of you will invest $2,000 to build and maintain a steamboat landing at the mouth of the Arkansas. You will charge a fee to farmers to unload their crops on the landing and to store them until the arrival of a steamboat.

___ I. There is no sawmill in the Razorback area. Isaac Higgins, a prosperous farmer, gives his son Caleb $1,000 toward building a sawmill. Caleb asks you to become his partner in the mill by putting up an additional $1,000. Caleb will operate the mill. Profits will be split, 60% going to Caleb and 40% to you.

___ J. Joe Henry comes to town with a bagful of blacksmith tools and $200 he earned as a blacksmith's helper in Kentucky. He wants to borrow $2,000 to set up a blacksmith shop in Razorback. With new settlers arriving daily, he figures he will be able to make a good living by shoeing horses and mules, making iron pots and pans, and making or repairing tools. He is willing to pay 10% interest over a five-year loan period.

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

Name______________________

# ACTIVITY 2
# TWO YEARS LATER

***The following information tells how well your investments performed. Calculate your earnings on a separate sheet of paper.***

A. You were right: The Razorback area is really growing! You sold all the extra goods you bought and made a 15% profit. Earnings = $150.

B. You spent $2,000 more than you usually do on extra goods to sell at your store. You were able to sell most of them, although you had to reduce prices on some things. On average, you made a 10% profit on your $2,000 investment. Earnings = $200.

C. Three thousand dollars worth of additional goods was just too much. Many goods remained unsold, and you had to cut prices to sell some of the others. To date, you have made a 1% return on your $3,000. Of course, some of the goods may sell in the future. Earnings = $30.

D. Your gin is completed by the time the cotton crop is in. In the first year, your profits are $500. In the second year, more cotton has been planted as farmers expand production and new farmers move in; your profits are $1,000. Half the profits go to your partner, John Parker. Earnings = $750.

E. Mordecai Evans raises good cotton. He is able to pay you back $100 in principal and $80 in interest in the first year. In the second year he pays back another $100, and $72 in interest (8% of the $900 he still owed in the second year). Earnings = $152.

F. Edward Grant is also a good farmer. He is able to pay you back $100 in principal and $90 in interest in the first year. In the second year he pays back another $100, and $81 in interest. Earnings = $171.

G. James Hickock didn't know much about the area and he bought land that wasn't very fertile. In the first year he paid you back $100 in principal and $100 in interest, but he had to sell one of his mules to make the payments. In the second year he wasn't able to get all his land planted and he went bankrupt. You took over his assets and sold them for $600. Earnings = subtract $200.

H. Your steamboat landing on the Mississippi is not ready for operation in time for the first cotton crop, so you make no profit. In the second year, the landing makes a profit of $500, which is split between you and your partner. You know that more and more cotton is being planted in your area and anticipate growing profits over the next few years. Earnings = $250.

I. Getting the sawmill into operation takes some time. At the end of the first year, Caleb has made only $100, of which you get $40. However, by the end of the second year of your partnership, there is $1,000 in profit to split between the two of you. Earnings = $440.

J. People around Razorback appreciate having a blacksmith close at hand. Young Joe Henry is able to pay $100 in principal and $100 in interest in the first year, and $100 in principal and $90 in interest in the second year. Earnings = $390.

Name____________________

# ACTIVITY 3

# DON'T COUNT YOUR MONEY YET! THERE'S SOME BAD NEWS!

IN AN ECONOMIC SYSTEM, ONE PERSON'S spending is another person's income. Because your inheritance brought only $3,000 in new money into Razorback, some good projects that could have made a profit weren't funded, and the failure of these projects to get off the ground cut into your income.

## ADJUST YOUR INCOME FROM INVESTMENTS AS FOLLOWS:

If you didn't fund the cotton gin, subtract $100 from the profits of your store. Without the new gin, farmers had to pay high fees at the monopoly gin, and therefore they had less money to spend on goods at your store.

If you didn't lend money to Mordecai Evans or Edward Grant, their inability to plant more land will affect the amount of money they have to spend. Subtract $25 from your profits for each farmer (Evans or Grant) who didn't get a loan. Also, if you invested in the gin, subtract $50 for each farmer who didn't get a loan; if they had had more land they would have ginned more cotton.

If you invested in the steamboat landing, subtract $15 for each farmer who didn't get a loan. You should know why, by now.

Subtract $15 from your profits if you didn't lend to Caleb Higgins and $25 if you didn't lend to Joe Henry. Because he didn't get a loan, Caleb could not open up the sawmill; instead, he had to stay on his father's farm. Joe Henry didn't stay in Razorback because, without the loan he needed to set up his blacksmith shop, he couldn't earn a living there.

## UNIT SEVEN: LESSON TWO

# WHAT ROLE DOES MONEY PLAY?

## INTRODUCTION

***History*** In the United States during the early 19th century, the money supply included not only government-issued coins but also notes issued by privately owned banks. Bank notes were paper money issued by the banks. Banks created additional money when they made loans by issuing banknotes. A larger money supply fostered economic growth.

***Economic History*** Changes in the money supply cause changes in the level of voluntary trade. Interest paid on loans provided an incentive in the early 19th century for banks to expand the money supply. An expanded money supply encourages specialization, trade and exchange, and economic growth.

## CONCEPTS

Money
Money Supply
Specialization and Exchange
Medium of Exchange

## OBJECTIVES

♦ Define money as anything that is freely accepted in exchange for goods and services.

♦ Recognize that a fractional reserve banking system allows the money supply to expand.

## LESSON DESCRIPTION

The teacher explains the concepts of *money* and *medium of exchange* and demonstrates, through a simulation activity, how the money supply increases when banks make loans.

## TIME REQUIRED

♦ One class period

## MATERIALS

The Activity 1 sheet should be cut so that you have 30 pieces of money.

One transparency of Visual 1.

## PROCEDURE

1. Explain to the class that many new banks were founded throughout the pre-Civil War period in response to profitable opportunities. These banks were privately owned, but they were chartered by state governments. There was no Federal Reserve System, as there is today, to monitor banking activities. The First and Second Banks of the United States were private banks (although they performed some services for the federal government, such as holding funds collected by the Treasury). Be sure to emphasize that the banking industry today is still largely a private activity; however, the actions of banks today are subject to many federal and state government regulations.

2. Explain that state banks increased the money supply by creating new money on the basis of the gold and silver they held on deposit. Banks today still create money, as do savings and loan companies and credit unions. Banks and savings and loans don't print dollar bills or manufacture coins, of course, but in another, more important way they do create new money.

3. Ask students to define *money*. After taking some answers, define "money" as "anything that is freely accepted in exchange for goods and services." Tell students that, when people in an economy start to specialize in the goods and services they produce, money becomes increasingly necessary so they can exchange their specialty for the specialties of others. Explain that you specialize in teaching American history, but that you would be in trouble if you tried to pay for a cartload of groceries by telling the grocery clerk about the life of George Washington or for a full tank of gas by offering the gas station clerk a fifteen-minute lecture about the causes of the Civil War.

4. Explain that money is a ***medium of exchange.*** It enables people who specialize in producing one good or service to exchange their product for somebody else's product. *Anything* is money if it is accepted in exchange for something else. People accept something as money if they have faith that they can exchange it for goods and services they want.

5. Tell the students that in the past mediums of exchange have included the wampum of the northeastern Native Americans (also used widely by the Europeans who traded with them), the fishhooks of Pacific Islanders, and the gopher tails used in the Dakota area late in the 19th century. Tell them that money is not really any particular object. The key function of money is that it encourages exchanges to be made.

6. Ask students to take out all the quarters they have. Tell them that you are going to start a bank to keep their quarters safe. Select one student as a teller. Have the teller record on the chalkboard the name of each student and the number of quarters each deposited. Use Visual 1 to help keep a record of deposits.

7. Take the quarters of several students, giving them green paper "Quarter Backs" in exchange. Put the quarters in a safe place—your desk or your pocket. After several students make deposits, have the teller count up and record the total number of quarters deposited.

8. Tell the students that the "Quarter Backs" now held by several students will probably work as well (at least within this classroom) as the quarters as a medium of exchange. After all, anyone who holds such a bank note can take it to the bank at any time and get a quarter for it. The note is "backed" by the quarter on deposit at the bank. Therefore, it is probable that people in the area, if they trust the banker, will begin to accept bank notes in exchange for goods and services. When this happens, the bank notes become money.

9. Ask students how much money is now in circulation. The answer is that the same amount of money is in circulation as there are quarters in the bank. The quarters in the bank are *NOT* money as long as they are at the bank instead of circulating in the community.

10. Now make loans to several students who have no quarters so that they can buy lunch, buy school supplies, get tickets to the football game, and so on. Make the loans by using additional bank notes. Have the teller record each loan on the chalkboard in the form of the number of quarters loaned. Or, you may wish to display Visual 1.

11. Explain that the people students buy from will accept the bank notes because each note is backed by a quarter at the bank. Point out that anyone who acquires bank notes that were created by lending has the same right to trade them for quarters as the original depositors do. Ask students what the total money supply is now (all the bank notes) and show that the notes are no longer backed 100 percent by the quarters on deposit at the bank.

12. Ask students, "Is the bank in trouble?" They are likely to say that it is, but the bank probably isn't in trouble as long as the ratio of paper money to quarters is not too large. The reason is that people don't generally all come to the bank at the same time to redeem their quarters (or, in the 19th century, their gold or silver). Paper money is easier to carry than a big load of quarters or gold or silver coins. On any one day, several people may come to the bank to deposit coins. Most banks in the 19th century were able to borrow from a nearby bank to cover days when withdrawals substantially exceeded deposits.

13. Explain to the students that this willingness to leave cash on deposit at banks for long periods of time is the basis for *fractional reserve banking*—a banking system in which a relatively large amount of money can be created on the basis of a smaller amount of something of value (like the quarters, or gold and silver in the 19th century, or deposits at the Federal Reserve Banks today).

14. Ask one of the students who has deposited at your bank:

A. Suppose one day that I am seen at the travel agency buying a one-way ticket to Rio de Janeiro. What will you probably do? (That student and other depositors probably report that they will hurry to your bank to withdraw their quarters, starting a "bank run." Since the value of the bank notes in circulation is greater than the value of the quarters in the bank, there is a strong possibility that not all bank notes will be redeemed.)

B. After I hop a plane to Rio, are your bank notes still money? (The bank notes in circulation are no longer money because no one will now accept them in exchange for goods and services. Money has disappeared from the economy.)

C. Explain to the class that people began to use checking accounts during the mid–to–late 19th century. The amounts in checking accounts were money as long as they were accepted in exchange for goods and services.

Review some of the main ideas of the lesson. *Ask:*

A. What is money? (Anything that is freely accepted in exchange for goods and services.)

B. How do banks expand the supply of money? (Banks do not keep a dollar of currency in their vaults for every dollar in deposits. They retain a fraction of their deposits and make loans with the rest.)

C. Why do banks make loans of deposits? (They charge interest on loans. The interest they earn constitutes their profit—their incentive to continue providing bank service.)

# ACTIVITY 1
# QUARTER BACKS

| | |
|---|---|
| .25 .25<br>QUARTER BACKS<br>REDEEMABLE FOR ONE<br>QUARTER<br>.25 .25 | .25 .25<br>QUARTER BACKS<br>REDEEMABLE FOR ONE<br>QUARTER<br>.25 .25 |
| .25 .25<br>QUARTER BACKS<br>REDEEMABLE FOR ONE<br>QUARTER<br>.25 .25 | .25 .25<br>QUARTER BACKS<br>REDEEMABLE FOR ONE<br>QUARTER<br>.25 .25 |
| .25 .25<br>QUARTER BACKS<br>REDEEMABLE FOR ONE<br>QUARTER<br>.25 .25 | .25 .25<br>QUARTER BACKS<br>REDEEMABLE FOR ONE<br>QUARTER<br>.25 .25 |
| .25 .25<br>QUARTER BACKS<br>REDEEMABLE FOR ONE<br>QUARTER<br>.25 .25 | .25 .25<br>QUARTER BACKS<br>REDEEMABLE FOR ONE<br>QUARTER<br>.25 .25 |
| .25 .25<br>QUARTER BACKS<br>REDEEMABLE FOR ONE<br>QUARTER<br>.25 .25 | .25 .25<br>QUARTER BACKS<br>REDEEMABLE FOR ONE<br>QUARTER<br>.25 .25 |
| .25 .25<br>QUARTER BACKS<br>REDEEMABLE FOR ONE<br>QUARTER<br>.25 .25 | .25 .25<br>QUARTER BACKS<br>REDEEMABLE FOR ONE<br>QUARTER<br>.25 .25 |

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

# VISUAL 1

## DEPOSIT RECORD

| | Name | Number of Quarters Deposited |
|---|---|---|
| 1. | | |
| 2. | | |
| 3. | | |
| 4. | | |
| 5. | | |
| 6. | | |

## LOAN RECORD

| | Name | Amount of Loan |
|---|---|---|
| 1. | | |
| 2. | | |
| 3. | | |
| 4. | | |
| 5. | | |

# BOOM AND BUST IN THE 1830s

## INTRODUCTION

***History*** President Andrew Jackson distrusted banks, especially the Second Bank of the United States. He blamed banks for printing worthless paper money that contributed only to inflation and economic panics. Eventually, he destroyed the Second Bank.

***Mystery*** An expanding money supply was an important cause of the inflation of the mid-1830s, but Andrew Jackson's "war" on the Second Bank of the United States had little to do with the inflation or the Panic of 1837 that followed it. How could such distant events as the opium trade in China and the health of the economy in Great Britain cause big trouble for the U.S. economy?

***Economic History*** The money creating rules of the economic system permitted the supply of money to change as the quantity of gold and silver changed. Silver from Mexico and gold from Great Britain accounted for the increase in specie in American banks in 1834–1837. More specie allowed banks to increase their lending. Economic problems in Great Britain reduced British demand for U.S. cotton. Problems in the cotton industry caused banks to fail. Bank failures caused the quantity of money to fall and produced an economic depression.

## CONCEPTS

Money Supply
Specie
Reserves
Inflation
Depression

## OBJECTIVE

♦ Use contemporary money supply data as the basis for evaluating theories about inflation and recession in the 1830s.

♦ Identify alternative explanations for the changes in the economy of the 1830s.

## LESSON DESCRIPTION

Students read Activity 1 and use the Tables in Activity 1 to answer questions. Following the discovery that the increase in the money supply, 1834–1837, was caused primarily by increases in specie, students read Activity 2, which describes the causes of that specie increase and the causes of the Panic of 1837.

## TIME REQUIRED

♦ One class period

## MATERIALS

One copy for each student of Activities 1 and 2.

## PROCEDURE

1. Tell the class that Americans have a long history of distrusting banks. President Andrew Jackson was one such American. He believed that banks in the western states printed worthless paper money. As president, he took steps to destroy one such bank. How clearly did President Jackson understand the role of money in the economy? Did his actions cause a new wave of inflation and finally the Panic of 1837? We will explore these questions in this lesson.

2. Distribute Activity 1, which should be read and completed in class. Review the answers to questions in Activity 1:

A. What do the figures in Table 1 show about the effects of Nicholas Biddle's contraction of the money supply after President Jackson began to remove funds from the Second Bank of the United States? (The figures from 1833 and 1834 show that specie was increasing but that the money supply increased much less in 1834 than it had in 1833.)

B. What happened to the money supply between 1832 and 1836? (The money supply almost doubled, going from $150 million to $276 million.)

C. Using information in Tables 1 and 2, decide whether the inflation of the mid-1830s was caused primarily by an increase in specie or by banks (particularly western banks) increasing the number of bank notes they issued on the basis of a given amount of specie. (Table 1 shows that reserve ratios [column 5] did not change dramatically over the period 1834–1837. Table 2 shows that reserves in the Middle Atlantic states were approximately the same as those in the Southwest and much lower than those in the Northwest. This does not support the charge that the western banks began to lend wildly when they were no longer under the influence of the Second Bank of the United States.)

3. Distribute Activity 2, which explains the rise in specie after 1832.

4. After students have read Activity 2, *ask:*

   A. What factors contributed to inflation in the 1830s? (The inflow of specie encouraged banks to increase the amount of bank notes available.)

   B. What factors contributed to the Panic of 1837? (Demand for cotton and for American canal bonds fell. The Bank of England attempted to reduce the amount of gold leaving Great Britain. Thus, less specie entered the U.S. economy, reducing the quantity of money, and bringing on panic and depression.)

## CLOSURE

Tell students that after gold was discovered in California in 1848, prices in the mining areas skyrocketed. For example, one miner wrote about paying $16 for eight ounces of sardines, $6 for a pound of butter, and $8 for a bottle of ale. Why did this happen? The amount of money (new gold dug out of the ground) was increasing rapidly, while the number of products available to buy with it was not. Over a longer period of time, high prices were an incentive for unsuccessful gold seekers to go into business to produce goods and services that were desired, and California quickly developed a thriving economy.

Name______________________

# ACTIVITY 1
# ANDREW JACKSON AND THE BANK WAR

THE MID-1830s WAS A PERIOD OF HIGH inflation in the United States. There was a general upward movement in the prices of most products and services in the economy. This inflation was accompanied by economic expansion. Both inflation and expansion ended with the Panic of 1837 when banks failed and factories closed. Why did the economy take this turn in the 1830s?

One theory is that Andrew Jackson's destruction of the Second Bank of the United States caused the inflation of the 1830s and the Panic of 1837. The accompanying tables will help you to decide on the truth of this claim.

Table 1 shows the supply of money in the United States from the end of 1830 through the end of 1839. The quantity of money in the United States (column 2) was made up of two elements: reserves and the additional money created on the basis of those reserves. In the United States in the 1830s, gold and silver (called *specie*) both circulated as money. When deposited in banks, specie served as the reserves that backed bank notes. People deposited specie in banks and received bank notes, which were easier to carry and to do business with. Banks also made loans on the basis of specie, usually in the form of bank notes. The total value of bank notes circulating was usually several times the value of the specie that banks held in reserve.

The Second Bank of the United States was a private bank that also served many government functions, including holding federal funds for the United States Treasury. Because it was so much larger than other banks, the Second Bank could also limit the number of bank notes that the other banks could create. When the Second Bank presented its bank notes for redemption in gold, the state banks had to pay out some of their gold, and this reduced their ability to make loans.

## JACKSON DESTROYS THE SECOND BANK OF THE UNITED STATES

Although the charter of the Second Bank was not due to expire until 1836, in 1832 Henry Clay submitted a bill to Congress to recharter the bank. President Jackson vetoed the bill. Then he began removing government funds from the Second Bank, depositing them in state banks instead. In retaliation, the president of the Second Bank, Nicholas Biddle, began calling in loans and increasing redemption of state bank notes. Since this action reduced the amount of money available to buy goods and services, many businesses began to fail and jobs were lost. However, after Jackson won reelection by a sweeping majority at the end of 1832, Biddle gave in and the money supply increased. The Second Bank then was able to obtain a state charter for Pennsylvania and operated until 1841, when it went bankrupt.

According to many history books, the removal of the Second Bank's threat to withdraw specie held as reserves encouraged the state banks, particularly those in the West, to issue many more bank notes and to lend money recklessly. A great business boom followed, accompanied by severe inflation. From 1835 to 1837 prices rose by one-third. In 1837 the boom collapsed and the nation experienced the Panic of 1837. This contraction of the economy lasted until 1843.

## QUESTIONS FOR DISCUSSION

Did the destruction of the Second Bank cause inflation and the Panic of 1837? Let's look at the evidence.

1. What do the figures in Table 1 show about the effects of Nicholas Biddle's contraction of the money supply after President Jackson began to remove funds from the Second Bank of the United States? Compare the amount of increase in money supply (columns 1 and 2) to the increase in specie (column 4) for 1833 and 1834.

2. What happened to the money supply between 1832 and 1836?

3. Using information in Table 1 and Table 2, decide whether the inflation of the mid-1830s was caused primarily by an increase in specie or by banks (particularly banks in the West) increasing the amount of bank notes they issued on the basis of a given amount of specie.

## TABLE 1
## QUANTITY OF MONEY IN THE UNITED STATES, 1830—1839

| (1) End of Year | (2) Money (Millions) | (3) Annual Rate of Change in Money Supply | (4) Specie (Millions) | (5) Reserve Ratio |
|---|---|---|---|---|
| 1830 | $114 | 7.9% | $32 | 23% |
| 1831 | 155 | 36.0 | 30 | 15 |
| 1832 | 150 | -3.2 | 31 | 16 |
| 1833 | 168 | 12.0 | 41 | 18 |
| 1834 | 172 | 2.4 | 51 | 27 |
| 1835 | 246 | 43.0 | 65 | 18 |
| 1836 | 276 | 12.2 | 73 | 16 |
| 1837 | 232 | -19.0 | 88 | 20 |
| 1838 | 240 | 3.4 | 87 | 23 |
| 1839 | 215 | -10.4 | 83 | 20 |

## TABLE 2
## RESERVE RATIOS OF STATE BANKS BY REGION 1834—1837

| End-of-Year Treasury Data | New England | Middle Atlantic | Southeast | Southwest | Northwest |
|---|---|---|---|---|---|
| 1834 | .10 | .21 | .26 | .21 | .39 |
| 1835 | .11 | .16 | .25 | .17 | .27 |
| 1836 | .10 | .16 | .20 | .13 | .31 |
| 1837 | .12 | .26 | .24 | .13 | .36 |

Sources of Tables 1 and 2: P. Temin, *The Jacksonian Economy* (New York: Norton, 1969) pp. 71, 75

Name______________________

# ACTIVITY 2
# CAUSES OF 1830s INFLATION AND PANIC

***You have examined some evidence which suggests that inflation and panic in the 1830s had little to do with careless lending by western banks. What are some alternative explanations?***

## OPIUM: CONTRIBUTOR TO INFLATION?

Opium was one reason that the stock of specie in the United States began to increase in the mid–1830s. By the 1830s the United States was exporting many products to Mexico and receiving in exchange silver from the vast mines of Mexico. The United States imported many goods from China and paid for them with silver. However, by the early 1830s, many Chinese had learned to smoke opium, which they acquired from the British and other European traders. Instead of trading with U.S. merchants for silver, the Chinese now wanted drafts on London banks so that they could buy opium.

United States traders had a large quantity of London bank drafts, and also British gold, as a result of their cotton exports to Great Britain and because the British had invested in American canal bonds. The silver from Mexico and the gold from Great Britain accounted for the great increase in specie in American banks over the years 1834–1837. And, with more specie in their vaults, American banks could greatly increase their lending without changing the ratio of specie to bank notes.

## WHAT CAUSED THE PANIC OF 1837?

What brought on the Panic of 1837 in the United States and the subsequent depression? British gold began to leave the United States, for three reasons. First, many states defaulted on their canal bonds, discouraging British investment. Second, the Bank of England attempted to reduce the amount of gold leaving Great Britain. Third, British demand for cotton from the United States fell because of a depression in Great Britain which idled many British textile mills. In other words, the British willingness and ability to buy U.S. cotton declined. American cotton producers and cotton brokers were unable to pay back bank loans, and many banks went broke.

Over the period 1837–1843, 23 percent of American banks failed, and the quantity of money fell by 34 percent (bank notes from failed banks were worthless). The economy showed some signs of recovery in 1838, but it worsened again in 1839. It continued in a depressed state until 1843.

## QUESTIONS FOR DISCUSSION

1. What factors contributed to inflation in the 1830s?

2. What factors contributed to the Panic of 1837?

# SAMPLE TEST ITEMS

## LESSON 1

1. You have saved $10,000. Which way of using these savings will be most likely to encourage economic growth?

A. Putting your savings in an old coffee can and burying them in your garden to keep them safe.
✓B. Buying desktop publishing software to start a new business.
C. Having a really big party.
D. All of these.

2. If a community (for example, Razorback, Arkansas) has very little money available,

✓A. Potential investments that would contribute to economic growth may not be funded.
B. The average standard changes in the value of money.
C. Investment will be encouraged because people will spend less.
D. None of these.

## LESSON 2

1. In the pre–Civil War period, bankers increased the quantity of money in circulation when they

A. Took deposits of gold and silver from their customers.
✓B. Made loans by issuing bank notes backed by the gold and silver in their vaults.
C. Lent gold and silver coins to their customers.
D. None of these.

2. In the late 1800s in the frontier area of the Dakotas, people could use gopher tails to buy goods and services. In this case,

A. Gopher tails were not money because they were not backed by gold or silver.
B. Gopher tails were not money because they were not approved by the United States government.
✓C. Gopher tails were money because they were freely accepted in exchange for goods and services.
D. Gopher tails were money because they were owned by the federal government.

3. The reserves of the pre–Civil War banks were

A. The total amount of money they created through the process of making loans.
✓B. The amount of gold and silver in bank vaults that could be used to pay out to depositors who wanted to withdraw funds.
C. The amount of money that banks could get from the Second Bank of the United States if too many depositors wanted to withdraw their money at one time.
D. The amount of land shares banks owned.

4. Banks failed in the pre–Civil War period

✓A. When depositors wanted to withdraw more of their gold and silver than the bank held in its vaults.
B. Whenever banks issued more bank notes than were backed 100% by the gold and silver in their vaults.
C. When Andrew Jackson outlawed fractional reserve banking.
D. When the Federal Reserve was established.

5. Explain how banks contribute to economic growth.

*Possible answer:* Banks provide a link between savers and investors. Savers who put their money in banks make money available for business firms to borrow for the purpose of starting or expanding business activities. Also, banks increase the total quantity of money available in the community, which stimulates demand for the goods and services that business firms provide.

## LESSON 3

1. During the years that the Second Bank of the United States existed as a national bank (1816–1836), it was able to restrain the growth of money in the United States by redeeming state bank notes for gold. This action

A. Increased the likelihood of inflation because it reduced the gold backing of bank notes.

✓B. Reduced the ability of state banks to make loans by reducing their reserves.
C. Had no effect on state banks because they were chartered by state governments rather than the federal government.
D. Both A and C.

2. The amount of money circulating in the United States increased rapidly in the early 1830s, leading to

A. Inflation and a decrease in business activity.
✓B. Inflation and an increase in business activity.
C. Unemployment and a decrease in business activity.
D. A depression called Caldwell's Folly.

3. The amount of money circulating in the United States fell by 19 percent in 1837. The result was

A. Inflation and a decrease in business activity.
✓B. Unemployment and a decrease in business activity.
C. Unemployment and an increase in business activity.
D. Inflation and an increase in business activity.

4. Explain how increases and decreases in the quantity of money in circulation can lead to inflation or unemployment.

*Possible answer:* An increase in the amount of money in circulation allows people to spend more. If spending increases rapidly, there may not be enough goods and services for people to buy at current prices. Sellers are able to raise prices because they have customers who are willing and able to pay higher prices. A decrease in the amount of money in circulation reduces the ability of people to buy. When producers see that less will be bought, they reduce production and do not need as many workers.

# A NATION DIVIDED

UNIT 8 ADDRESSES TWO ECONOMIC QUESTIONS related to the U.S. Civil War. The first focuses on the costs and benefits of eliminating slavery; the second focuses on the economic effects of the war.

Lesson 1 poses the question of why the South, possessing far fewer resources than the North, decided to fight the North. Using economic reasoning, this lesson presents an analysis of the costs and benefits of eliminating slavery.

Lesson 2 investigates another controversial question related to the Civil War. Some historians suggest that the Civil War may have been good for the U.S. economy. They point to the rapid growth of the economy following the Civil War as evidence. But economic reasoning requires that we consider a "counterfactual" proposition to test this explanation of growth following the Civil War: How would the U.S. economy have been different had the Civil War not been fought? The lesson includes a comparison of costs and benefits attributable to the war.

# WHY DID THE SOUTH SECEDE?

## INTRODUCTION

***History*** In fighting the Civil War, the North had many clear advantages over the South, including a larger population, more industries, more railroads, more farms, and more financial institutions. Confederate wealth was largely held in the form of slaves and land.

***Mystery*** In light of the economic advantages of the North over the South, it seems in retrospect almost irrational on the part of the South to engage the North militarily. Why did the South secede?

***Economic History*** The South faced alternatives regarding the future of slavery. Economic reasoning suggests that the South believed it was choosing the most advantageous combination of benefits over costs in deciding to fight.

## CONCEPTS

Alternatives
Costs
Benefits

## OBJECTIVES

◆ Use economic reasoning to explain why the South was willing to fight the North in the Civil War.

◆ Identify alternative ways of eliminating slavery.

◆ Identify the expected costs and benefits associated with ways of destroying slavery.

## LESSON DESCRIPTION

Students examine information in a series of visuals about the strengths and weaknesses of the South and North on the eve of the Civil War. Next, they examine alternatives for eliminating slavery and discuss the expected costs and benefits of fighting the Civil War.

## TIME REQUIRED

◆ One class period

## MATERIALS

One copy for each student of Activities 1 and 2.
One transparency each of Visuals 1, 2, and 3.

## PROCEDURE

1. Explain to the class that among historians much confusion surrounds the decision of the South to fight the Civil War. To a person who looks today at the overwhelming economic advantages of the North, it may seem surprising that the South was willing to fight. Was the South irrational to fight the North?

2. Display Visual 1. Explain that while Mr. Faulkner exaggerated the numbers involved, his notion that the North was vastly superior to the South in resources is correct.

3. Display Visual 2 and Visual 3. Discuss the economic advantages of the North and South.

4. Explain that slavery was a central issue in the South's decision to fight for its independence from the North.

5. Distribute Activity 1 to the class. Briefly discuss the alternatives for eliminating slavery. Divide the class into small groups. Ask them to predict the consequences of each alternative and to explain how the North and South were weighing costs and benefits.

6. Discuss the predictions of the small groups regarding each alternative in Activity 1.

7. Distribute Activity 2. Discuss the consequences of each alternative presented. Compare the consequences on Activity 2 to the students' earlier predictions. Encourage students to observe how the South and the North were striving to measure the costs and benefits of fighting.

## CLOSURE

Review the idea that, according to this analysis, neither the South nor the North was irrational in deciding to fight. In the estimation of each side, the costs were worth the expected benefits. However, once the war began, each side found that it had seriously underestimated the actual costs of the war.

## VISUAL 1

# WHY DID THE SOUTH SECEDE FROM THE UNION?

Was the South irrational to fight the Civil War? Some people thought so. William Faulkner, a distinguished novelist from Mississippi, said in 1942:

> *Who else would have declared a war against a power with 10 times the area, 100 times the men, and 1,000 times the resources?*

Source: William Faulkner, *Go Down Moses*, 1942.

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

# VISUAL 2

# ADVANTAGES OF THE NORTH

At the outset of the Civil War, the North had many material advantages over the South.

The North had a population of 22 million.

The South had a population of 9 million, which included 3.5 million slaves.

The North had 92 percent of the nation's industries.

The North had 22,000 miles of railroad track.

The South had 9,000.

The North controlled the U.S. Navy and merchant marine.

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

# VISUAL 3
# ADVANTAGES OF THE SOUTH

While the South had far fewer material advantages, some elements were in its favor.

The South had a clear war objective—to win independence. The North fought for the somewhat less definite goals of preserving the Union and eliminating slavery.

The South needed to fight only to defend its territory. The North had to carry out an invasion.

The South had a strong military tradition. Many U.S. Army and Navy officers had been recruited from the South. Great arsenals and army bases were located in the South.

The South believed that its cotton trade with Great Britain and France would cause these nations to provide aid to the Confederacy.

Name____________________

# ACTIVITY 1

# ALTERNATIVES FOR ELIMINATING SLAVERY AND THEIR CONSEQUENCES

***There were at least three ways to eliminate slavery. Read each of the following alternatives.***

1. *Emancipation of the slaves by the owners.*
   How might this alternative affect slave owners?

2. *Emancipation of the slaves by paying compensation from the federal government to slave owners.*
   How might this alternative affect slave owners?

   How might this affect taxpayers in the North? South?

3. *Fighting to eliminate slavery.*

   Did compromise on slavery appear likely? What might be the benefits of fighting? Costs?

4. Explain how the North and the South were measuring costs and benefits as they considered the alternative to fight.

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

Name______________________

## ACTIVITY 2
## CONSEQUENCES OF ELIMINATING SLAVERY

***There were at least three ways to eliminate slavery, each of which would have important consequences or uncertainties associated with it.***

**1. Emancipation of the slaves by the owners.**

Large loss of immediate wealth by the slave owners.

Large loss of future wealth by the slave owners.

Burden of losses would be borne only by the current slave owners.

**2. Emancipation of the slaves by paying compensation from the federal government to slave owners.**

Burden for eliminating slavery would require large government outlays.

Northerners, because of their larger population, would pay a greater amount of the cost than would people in the South.

It was not at all clear that the South would accept compensation for the current value of slaves as a solution even if it were offered. No one proposed compensation for future value.

**3. Fighting to eliminate slavery.**

Politicians for years had tried compromise after compromise to solve the problem. No additional compromises were found to which both sides could agree. Both sides expected that the war would be short.

Both sides expected that the war would cost less than it did—perhaps $ ½ billion.

### WEIGHING COSTS AND BENEFITS

Neither side was irrational in fighting the war. Instead, each side weighed the costs and benefits of the alternatives for eliminating slavery, including the alternative of war.

The gains each side expected to achieve (preserving the Union or gaining independence) appeared to be worth the risks, given the apparent costs of the peaceful alternatives.

On the eve of the fighting at Fort Sumpter, warfare appeared to be the least expensive alternative for solving the issues related to slavery and the future of the Union.

## UNIT EIGHT: LESSON TWO

# THE ECONOMIC EFFECTS OF THE CIVIL WAR

## INTRODUCTION

***History*** After the Civil War, the North experienced an explosion of economic growth in agriculture and manufacturing. It is easy to imagine that economic growth in the decades following the Civil War was caused by the War itself.

***Mystery*** Do wars help or hurt an economy? When considering the economic effects of the Civil War or any other war, the key question to consider is: How would the economy have been different if the war had not been fought? Could it be the case that the Civil War retarded rather than stimulated the economy?

***Economic History*** The loss of workers, entrepreneurial talent, and the diversion of investment from civilian to military production almost certainly meant that the Civil War hurt rather than helped the economy. Any economic benefits associated with the war would have been realized even if there had been no war, and, without the War, many costs would have been avoided. There were, of course, individuals who gained and others who lost as a result of the war.

## CONCEPTS

Opportunity cost
Economic growth

## OBJECTIVES

♦ Use counterfactual hypotheses to analyze whether the Civil War helped or hurt the U.S. economy.

♦ Identify costs and benefits incurred as a result of the Civil War.

## LESSON DESCRIPTION

Students examine information presented in a visual and a handout to discuss the economic impact of the Civil War.

## TIME REQUIRED

♦ One class period

## MATERIALS

One transparency of Visual 1.
One copy for each student of Activity 1.

## PROCEDURE

1. Point out to the class that there is a belief, often taken at face value, that wars are good for market economies like the U.S. economy. Even today, people can be overheard remarking that a war now and then is necessary to help the economy. In 1991, for example, some people believed that the United States fought the 1991 war in the Persian Gulf to stimulate the U.S. economy. Do wars help or hurt the U.S. economy?

2. Ask the class to consider where the idea that wars cause economies to grow may come from. It may have to do with confusing chronology—the idea that events follow one another—with cause and effect relationships—the idea that one event causes another. This confusion occurs so frequently that logicians have given it a name. They call it the *post hoc fallacy*. *Post hoc* is shorthand for *post hoc ergo propter hoc*, a Latin phrase meaning "after this, therefore because of this." *Post hoc* reasoning is fallacious because we can't validly conclude that one event *caused* another event merely because it *came before* the other event. Why can't we? Think of some examples to check this claim.

3. Display Visual 1. Note that students of history have observed that war increases the production of war-related goods—muskets and tanks, bayonets and Patriot missiles—and decreases the production of civilian goods. The stimulating effect of government spending can produce remarkable levels of production. Are wars good for the economy?

4. Distribute Activity 1 and allow the students to respond to the questions in groups or pairs. *Ask:*

A How did Northern production and the overall U.S. economy expand? (Factories, agriculture, and railroads expanded.)

B. Using economic reasoning, what is the key question to be posed regarding the economy and the Civil War? (How would the U.S. economy after the Civil War have been different from the economy as it would have been if the United States had not fought the War?)

C. What were some of the costs of the war? (Loss of workers, loss of entrepreneurial talent, destruction of capital goods, and diversion of investment from civilian to military production. Many of the economic benefits associated with the war, such as the expansion of manufacturing and the use of labor-saving tools, would have been realized anyway if there had been no war, and then people would not have sustained the other losses associated with the war.)

D. Which groups gained from the war? (Former slaves, Northern farmers, and a few opportunists.)

E. What groups were hurt? (Those killed and injured, the families of soldiers, and most Southerners--for example., those whose property was destroyed or confiscated.)

## CLOSURE

Remind the class that the key idea of this lesson is not to confuse chronology with cause and effect. The fact that the U.S. economy grew in the decade following the Civil War does not mean necessarily that the Civil War caused the economy to grow. Economic reasoning states that all choices involve costs. When examining the impact of the Civil War, we have to ask the counterfactual question: How would the economy after the Civil War have been different if the United States had *not* fought a war? Many economic historians conclude that, while some groups benefited and others were hurt, overall the Civil War hurt U.S. economic growth.

Point out that the 1991 war in the Persian Gulf was followed by an economic recession in the United States. It is an example of an economic downturn, rather than prosperity, following a war. Does this show that war causes economic downturn? Explain your answer by reference to the *post hoc fallacy*.

# VISUAL 1
# A WAR MYTH

Many believe that the Civil War brought unprecedented economic growth to the United States during and after the war. No longer hampered by Southern farmers, Northern industrialists were free to expand. Production of iron and steel, for example, expanded.

Do wars help or hurt the economy?

## Name____________________

# ACTIVITY 1
# DID THE CIVIL WAR HELP OR HURT THE U.S. ECONOMY?

## NORTHERN PRODUCTION INCREASED

There is evidence of economic expansion during and after the Civil War. For example:

- New Northern factories were built during the war.
- Labor-saving machines such as the sewing machine invented by Elias Howe came into use.
- Agriculture expanded with the increased use of new machines such as the reaper invented by Obed Hussey and Cyrus H. McCormick.
- Railroads also expanded during the war, improving transportation between the Middle West and the Northeast.

## WHAT WAS THE OPPORTUNITY COST?

Economic reasoning states that all choices involve cost. Even if it were true that the Civil War stimulated the U.S. economy in some respects, we need to take into account the costs the war imposed. The key question is: How would the economy after the Civil War have been different if the UNITED STATES had not fought the war?

## WHAT IF THE CIVIL HAD NOT BEEN FOUGHT?

Stanley Lebergott, an economic historian, offers evidence that the Civil War probably slowed American industrialization. If there had been no war, he points out,

- Death and suffering would not have afflicted hundreds of thousands, depriving the economy of skillful workers and future leaders.
- Investment would not have been diverted from civilian production (for example, manufacturing civilian clothing) to military production (for example, manufacturing military uniforms).
- People enrolled in Northern armies—one person in four—would have been employed in the civilian labor force.

Moreover, he says, the trend of economic expansion in industry and agriculture was set before the Civil War and would have continued without it.

Many of the economic benefits associated with the war, such as the expansion of manufacturing and the use of labor-saving tools, would likely have been realized even if there had been no war, and people would not have sustained other losses associated with the war.

## GROUPS HELPED BY THE WAR

While the Civil War may have had an overall negative effect on the economy, there were people who benefited from the war and others who were hurt.

**Former Slaves:** Three and one-half million Americans were freed from slavery. They gained legal citizenship and, with it, the freedom to make more economic choices.

**Northern Farmers:** Military demands for food and wool increased incomes and land values for farmers.

**Opportunists:** A small but notorious group of risk-takers benefited from the war. Included were people who ran blockades, traded across enemy lines, and hastily fulfilled government contracts, sometimes with shoddy merchandise.

## GROUPS HURT BY THE WAR

**Physically hurt:** People killed or wounded in the war.

**Families of soldiers:** With the disruption of the war, the family income of soldiers often declined.

**Southerners:** The standard of living for most Southerners declined largely because the war destroyed capital goods (such as farms and factories), depreciated Confederate currency, and caused high prices for imports.

## QUESTIONS FOR DISCUSSION

1. How did Northern production and the overall U.S. economy expand during and after the Civil War?

2. Using economic reasoning, what is the key question to be posed regarding the economy and the Civil War?

3. What were some of the costs of fighting the Civil War?

4. What groups gained from the war?

5. What groups were hurt?

From *United States History: Eyes on the Economy*, ©National Council on Economic Education, New York, N.Y.

## SAMPLE TEST ITEMS

### LESSON 1

1. Which of the following was not an advantage of the North over the South at the outset of the Civil War?

A. More railroad track.
B. More industry.
✓C. Strong military tradition.
D. Control of the U.S. Navy.

2. Which of the following was not an advantage of the South over the North at the outset of the Civil War?

A. Clear military objective.
B. Could fight a defensive war.
C. Counted on help from Great Britain.
✓D. Larger population.

3. Explain three alternatives and their consequences for eliminating slavery. Use these reasons to help explain why the South and the North were willing to fight.

*Possible answer:* Emancipation of slaves would mean a large immediate and future loss of wealth to be borne only by the slave owners. Emancipation of slaves with compensation would have shifted the burden of immediate financial loss to the taxpayers, with a larger share of the burden falling on the North than the South. Fighting to eliminate slavery was considered when other compromises had failed, and when both sides thought the war would be short. Both sides judged that the anticipated gains from fighting were greater than the anticipated costs.

### LESSON 2

1. Which of the following groups was not helped by the Civil War?

A. Former slaves.
B. Northern farmers.
✓C. Southerners.
D. War opportunists.

2. It is widely assumed that wars help our economy. Explain why the Civil War may have done more to hinder economic growth than to help it.

*Possible answer:* The loss of workers and potential leaders, and the diversion of investment from civilian to military production, probably meant that the Civil War hurt the economy. Many of the economic benefits associated with the war, such as the expansion of iron and steel production, would have taken place anyway.

**National Council**
on Economic Education

The EconomicsAmerica and EconomicsInternational Programs

1140 Avenue of the Americas, New York, NY 10036
212.730.7007 *fax* 212/730.1793 ncee@eaglobal.org

BEST COPY AVAILABLE